GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

Municipal Secondary Market Disclosure Information Cover Sheet
Municipal Securities Rulemaking Board (MSRB)
Electronic Municipal Market Access System (EMMA)

THIS FILING RELATES TO A SINGLE BOND ISSUE:

Name of bond issue exactly as it appears on the cover of the Official Statement:

Nine-digit CUSIP* numbers if available, to which the information relates:

THIS FILING RELATES TO ALL OR SEVERAL SECURITIES ISSUED BY THE ISSUER, OR ALL OR SEVERAL SECURITIES OF A SPECIFIC CREDITOR:

Issuer's Name: **Puerto Rico Highways and Transportation Authority**

Other Obligated Person's Name (if any):

Six-digit CUSIP* number(s): **745181, 745190, 745185 (Teodoro Moscoso Bridge)**

TYPE OF INFORMATION PROVIDED:

A. ☐ **Annual Financial Information and Operating Data pursuant to Rule 15c2-12**

Fiscal Period Covered:

B. ☒ **Audited Financial Statements or CAFR pursuant to Rule 15c2-12**

Fiscal Period Covered: 2016-17

C. ☐ **Notice of Failure to Provide Annual Financial Information as Required**

I represent that I am authorized by the issuer, obligor or its agent to distribute this information publicly.

/s/ Sebastián M. Torres Rodríguez
Sebastián M. Torres Rodríguez
Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for the Commonwealth

Dated: April 9, 2019

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FAFAA

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY

(a Component Unit of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITORS' REPORT
AND
REQUIRED SUPPLEMENTARY INFORMATION
AND SUPPLEMENTARY SCHEDULES
AND AUDIT OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2017

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(a Component Unit of the Commonwealth of Puerto Rico)
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico):

Report on the Financial Statements

We have audited the accompanying financial statements of the Puerto Rico Highways and Transportation Authority ("the Authority") (a Component Unit of the Commonwealth of Puerto Rico), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BDO

To the Board of Directors of
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico)
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2017, and the changes in financial position and, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 5 to the basic financial statements, the Authority has significant recurring losses from operations and does not have sufficient funds available to fully repay its various obligations as they come due, which raises substantial doubt about its ability to continue as a going concern. As further disclosed in Notes 14 and 15 to the basic financial statements, the Authority has defaulted in the payment of principal and interest on multiple bond series and line of credits. Management's plans in regard to these matters are also described in Note 5.

In addition, as discussed in Notes 4 and 5 to the basic financial statements, on May 21, 2017, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), at the request of the Governor, commenced a case for the Authority by filing a petition for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act, 48 U.S.C. §§ 2101, *et seq*. (PROMESA) in the United States District Court of Puerto Rico. The Authority's basic financial statements do not include any adjustments that might result from the outcome of its Title III proceeding. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 3 to the basic financial statements, the Authority adopted the provisions of GASB 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB 27 and* the related GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to Measurement Date - an amendment to GASB Statement No 68* effective July 1, 2016. The Authority's net position at the beginning of year has been adjusted for this change. Our report was not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15, the schedule of funding progress for retiree health plan (OPEB) on page 77, the schedule of statutorily required employer contributions pension plan on page 78 and the schedule of proportionate share of the collective net pension liability on page 79 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standard Board, who considers it essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

BDO

To the Board of Directors of
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico)

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, then comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The schedule of expenditures of federal awards on page 81 is presented for purposes of additional analysis as required by Title 2 U.S. Part 200 of the *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The schedule of revenues and expenses by segment on page 83, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of revenues and expenses by segment has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BDO

To the Board of Directors of
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BDO Puerto Rico PSC

San Juan, Puerto Rico

December 14, 2018

Certified Public Accountants
(of Puerto Rico)
License No.53 Expires December 1, 2021
Stamp E360322 of P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

The following discussion and analysis of the financial performance and activity of the Puerto Rico Highways and Transportation Authority (the "Authority") provides an introduction and understanding of the basic financial statements of the Authority for the fiscal years ended June 30, 2017 and 2016. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

Financial Highlights

The Authority's net position at June 30, 2017 totaled $1,552.8 million as compared to $2,063.5 million at June 30, 2016. Net position decreased by $510.7 million during the fiscal year ended June 30, 2017, as compared to a decrease of $474.4 million during the fiscal year ended June 30, 2016. This change was due principally to an increase in operating revenues, offset by an increase in operating expenses and a decrease in operating transfers from the Commonwealth of Puerto Rico (the "Commonwealth") during the fiscal year ended June 30, 2017, as explained in Note 5 to the basic financial statements and a increase in capital and operating grants.

The Authority's net capital assets, including assets under the Service Concession Agreements (as defined below), totaled $10,024.9 million at June 30, 2017, as compared to $10,306.9 million at June 30, 2016. Net capital assets decreased by 2.74% at June 30, 2017, when compared with the balance at June 30, 2016.

The total aggregate amount of the Authority's non-current liabilities was $5,110 million at June 30, 2017 as compared to $5,224.9 million at June 30, 2016, which consisted principally of bonds payable, expropriation legal reserve, voluntary termination incentive plan and vacation and sick leave. The decrease of approximately $114.8 million during the fiscal year ended June 30, 2017 consisted principally of principal payments on bonds payable. As described in Notes 14 and 23 to the basic financial statements, the Authority defaulted on approximately $5.6 million of debt service payments on certain of its bonds during fiscal year 2017, and has defaulted on an additional $584 million as of the date hereof. In addition, long-term debt includes the Authority's net pension liability recorded in accordance with Government Accounting Standards Board (GASB) Statement No. 68 which increased by approximately $53.4 million during the fiscal year ended June 30, 2017.

Financial Statements

The basic financial statements provide information about the Authority's activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as promulgated by GASB.

Overview of the Basic Financial Statements

The basic financial statements consist of the: (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, (3) statement of cash flows, and (4) notes to the financial statements. The basic financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with GAAP.

Statement of Net Position

The statement of net position reports all financial and capital resources of the Authority. The statement is presented in the format where assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources plus net position. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash or due and payable within one year) and con-current. The focus of the statement of net position is to show a picture of the liquidity and financial health of the Authority as of the end of the year.

The Authority's net position is reported in the following categories:

Net Investment in Capital Assets - This component of net position consists of all capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from toll operations, vehicle license fees, certain investment income, gasoline and petroleum taxes allocated annually by the Commonwealth, because the capital assets themselves cannot be used to liquidate liabilities.

Restricted for Debt Service - This component of net position consists of restricted assets for the principal and interest payments of the bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction - This component of net position consists of restricted assets for the specific purpose of paying for construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted - This component consists of net position that does not meet the definition of net investment in capital assets or restricted for debt service or for construction.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses and changes in net position includes: (i) operating revenues, which consist of tolls, train fares, concession agreements, and other operating expenses, such as costs of operating toll roads, the mass transportation system, administrative expenses, and depreciation on capital assets; and (ii) "non-operating" revenue and expenses, such operating transfers from the Commonwealth of Puerto Rico, interest and investment income, interest expense and others. The statement also includes capital contributions and payments received from the Commonwealth and federal government grants. The focus of the statement of revenues, expenses, and changes in net position is the change in net position. This is similar to net income or loss, and portrays the results of operations of the Authority for the entire operating period.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used by operating activities, noncapital financing activities, capital and related financing activities and from investing activities. This statement also portrays the financial health of the Authority in that current cash flows are sufficient to pay current liabilities.

Notes to the Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, bonds payable, long-term liabilities, retirement plans and the commitments and contingencies. The reader is encouraged to read the notes in conjunction with the management discussion and analysis and the financial statements.

Adoption of New Accounting Pronouncement

As discussed in Notes 2 and 3 to the financial statements, the Authority adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB 27* and the related GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to Measurement Date - an amendment to GASB Statement No 68* effective July 1, 2016.

As a result, the Authority has determined that a restatement of the July 1, 2016 beginning net position was required to recognize the change in accounting principles based on the implementation of GASB Statement Nos. 68 and 71 through which accounting for pension plans and related disclosure requirements were modified.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

Financial Analysis of the Authority

Statement of Net Position

The following table reflects the condensed net position of the Authority as of June 30, 2017 and 2016:

	2017	2016
Assets		
Current assets	$ 50,087,429	$ 262,423,507
Restricted assets	158,749,666	206,059,971
Capital assets, net	9,825,409,598	10,113,645,874
Highways and bridge under concession agreement, net	199,488,065	193,220,632
Other non-current asset	574,065	888,902
Total assets	10,234,308,823	10,776,238,886
Deferred outflow of resources	198,552,783	166,242,764
Total assets and deferred outflow of resources	$ 10,432,861,606	$ 10,942,481,650
Liabilities		
Current liabilities	$ 2,611,614,552	$ 2,501,852,054
Non-current liabilities	5,110,043,745	5,224,881,856
Total liabilities	7,721,658,297	7,726,733,910
Deferred inflows of resources	1,158,359,684	1,152,210,102
Total liabilities and deferred inflows of resources	8,880,017,981	8,878,944,012
Net position		
Net investment in capital assets	$ 2,621,106,494	$ 2,810,877,793
Restricted for debt service	35,409,622	300,813,458
Restricted for construction	13,724,992	12,076,331
Unrestricted	(1,117,397,483)	(1,060,229,944)
Total net position	1,552,843,625	2,063,537,638
Total liabilities, deferred inflow of resources and net position	$ 10,432,861,606	$ 10,942,481,650

Current assets decreased by approximately 80.91% to $50.1 million during the fiscal year ended June 30, 2017. The net decrease in current assets of $212 million was principally due to a decrease in cash and cash equivalents restricted for debt service of $221.6 million which was used to pay principal and interest on bonds during the fiscal year ended June 30, 2017. No amount of such cash equivalents are presented as current assets as of June 30, 2017 because the Authority defaulted all debt service payments during fiscal year 2018.

The total aggregate amount of restricted assets was $158.8 million at June 30, 2017. Cash and cash equivalents and investments deposited with a trustee decreased by approximately $55 million during the fiscal year ended June 30, 2017. This decrease was related to the use of cash and investments with a trustee for the payments of bonds and interest during the fiscal year 2017, while there were no deposits made by the Authority during fiscal year 2017. The amount

due by the U.S. federal government decreased by approximately $4 million during the fiscal year ended June 30, 2017. The amount of this receivable depended on the amount allocated to the Authority by the U.S. federal government and the timing of federal funding requests.

During the fiscal year ended June 30, 2017, capital assets decreased by 2.8% to approximately $9,825.4 million as compared to fiscal year 2016. This decreased was the net result of an aggregate increase in construction in process, roads, bridges and equipment, and vehicles of approximately $163 million, net of depreciation expenses of approximately $451 million for fiscal year 2017.

During the fiscal year ended June 30, 2017, highways and bridges under the Service Concession Agreements (as defined below) increased by 3.2% to approximately $199.5 million as compared to fiscal year 2016. This increase was due to improvements to toll roads PR-5 and PR-22 in the total aggregate amount of approximately $7.9 million made by Metropistas (defined below) net of depreciation expenses of approximately $1.7 million related to the Teodoro Moscoso Bridge.

Deferred outflows of resources increased by 19.4% to approximately $198.6 million during the fiscal year ended June 30, 2017 as compared to prior year due to the increase in the deferred outflows of resources related to pension of $43.3 million, offset by the amortization of deferred outflows related to the unamortized loss on advance refunding of $11 million for the year ended June 30, 2017.

During the fiscal year ended June 30, 2017, current liabilities increased by 4.4% to approximately $2,612 million as compared to fiscal year 2016. Major changes in current liabilities are the following:

Accounts payable and accrued liabilities, including accrued voluntary termination benefits and vacations and sick leave, decreased by 0.94% to approximately $198.3 million during the fiscal year ended June 30, 2017 as compared to the prior fiscal year period. These liabilities change depending on the level of operations of the Authority.

Accrued interest payable increased by 24.4% to approximately $535.7 million during the year ended June 30, 2017 as compared to the prior fiscal year period principally because the accrued interest on the line of credit with the Government Development Bank of Puerto Rico ("GDB") has not been paid. No principal repayments were made during fiscal year 2017. In addition, during the fiscal year ended June 30, 2017, the Authority defaulted in the debt service interest on one of its bond series in the amount of $2.3 million, resulting in an increase in accrued interest payable.

Legal claims not related to expropriation and related costs, decreased by 31.7% to approximately $13.2 million during the fiscal year ended June 30, 2017 as compared to the prior year period. Legal claims related to expropriation of property decreased by 15% to approximately $91.4 million. The value of the legal claims was recorded based on advice from legal counsel.

The current portion of bonds payable increased by 10.8% to $130.7 million during the fiscal year ended June 30, 2017 as compared to fiscal year 2016.

During fiscal year ended June 30, 2017, non-current liabilities increased by 2.2% to $5,110 million as compared to fiscal year 2016. Bonds payable decreased by approximately $154 million due to payments made during fiscal year 2017, net of amortization of bonds premiums. Net pension liability was recorded in accordance with the provisions of GASB Statement No. 68 and increased by approximately $53.4 million during fiscal year 2017 as compared to fiscal year 2016. This liability is determined based on the amount allocated by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) based on independent actuarial and other evaluations.

Deferred inflows of resources during the fiscal year ended June 30, 2017 increased by 0.5% to $1,158.4 million as compared to fiscal year 2016. On April 19, 2016, the Authority entered into an amendment of its Toll Road Service Concession Agreement (defined below) to extend the original term to 10 additional years and to create five bi-directional tolling points on the PR-5 and PR-22 highways. The Authority received an upfront concession fee payment of $100 million in April 2016 and during the fiscal year ended June 30, 2017 the Authority received an additional $15 million concurrently with the commencement of the bi-directional tolling system. The increase of $2.6 million in fiscal year 2017 in deferred inflows of resources related to concession agreements for the year ended June 30, 2017, was mainly due to the net effect of the additional $15 million received under the Toll Road Service Concession Agreement, $25.5 million of amortization, and $7.9 million of improvements made by Autopistas (defined below). In addition, during the fiscal year ended June 30, 2017 the Authority implemented the requirements of GASB Statement No. 68 and as a result recorded deferred inflows of resources related to pensions in the total aggregate amount of approximately $20.3 million.

During the fiscal year ended June 30, 2017, the Authority's net position decreased by 24.7% to $1,552.8 million as compared to fiscal year 2016. The decreased was due to a loss of approximately $510.7 million after capital contributions during fiscal year 2017. The largest portion of the Authority's net position was its investments in capital assets net of related debt outstanding used to acquire such capital assets.

Condensed Statements of Revenues, Expenses and Changes in Net Position

The following table reflects a condensed summary of the revenues, expenses, and changes in net position for fiscal years ended June 30, 2017 and 2016:

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating revenues:		
Toll and train fares	$ 143,201,988	$ 144,912,274
Concession agreement	54,600,854	34,686,914
Other income	28,838,089	36,570,987
Operating revenues	226,640,931	216,170,175
Operating expenses	240,844,771	212,338,725
Depreciation and amortization	452,995,369	451,859,413
Operating loss	(467,199,209)	(448,027,963)
Non-operating revenues/(expenses)		
Operating transfers from the Commonwealth of Puerto Rico	140,339,005	234,489,218
Operating grants from U.S. Federal Government	33,037,581	31,750,053
Investment income	24,019,326	15,339,033
Other non-operating revenues	3,328,741	12,268,957
Interest on bonds and lines of credit	(337,269,755)	(345,424,941)
Other non-operating expense	(51,498)	(13,640,410)
Total non-operating revenues/(expenses)	(136,596,600)	(65,218,090)
Loss before transfers and capital contributions	(603,795,809)	(513,246,053)
Transfer and capital contributions, net	93,101,796	38,866,401
Change in net position	(510,694,013)	(474,379,652)
Net position at beginning of year, as restated	2,063,537,638	2,537,917,290
Net position at end of year	$ 1,552,843,625	$ 2,063,537,638

Operating revenues, which consisted of toll fares, train fares, concession agreements and other revenues increased by 4.8% to $226.6 million during the fiscal year ended June 30, 2017 as compared to fiscal year 2016. This increase is the net effect of the following:

a. The decrease in other income of approximately $7.7 million was mainly due to a decrease in toll fines and other operating revenues of approximately $3.0 million and an increase in bad debt expense of approximately $5.0 million.

b. The increase in concession revenue recorded during fiscal year 2017 of approximately $19.9 million was mainly due to the early redemption of the Teodoro Moscoso Bonds in the total aggregate amount of approximately $21.9 million. As described in Note 12, the Teodoro Moscoso bonds are paid by Autopistas (defined below) and recorded as concession revenue.

Operating expenses increased by 13.4% to approximately $240.8 million during the fiscal year ended June 30, 2017 as compared to fiscal year 2016. The increase in operating expenses of approximately $28.5 million during the period was the net effect of: (i) an increase in salaries

and related benefits of approximately $2.5 million (which in turn is due to an increase in the Authority's pension expenses); (ii) an increase in toll highways administration of approximately $2.7 million; (iii) an increase of approximately $195,000 in utilities; and (iv) an increase of approximately $13.5 million in other expenses as a result of increased legal expenses when compared to fiscal year 2016. The combined increase in the aforementioned expense categories was offset by: (a) a decrease in repairs and maintenance of toll and bridges of approximately $9.8 million as a result of the Authority's general reduction in repairs and maintenance activities; (b) a decrease of approximately $308,000 in the integrated transportation system; and (c) a decrease of approximately $2.3 million in train operating costs as a result of reduced operating contract costs when compared to fiscal year 2016.

Operating transfers from the Commonwealth of Puerto Rico decreased as a result of the fiscal crisis. As discussed in Note 5 to the basic financial statements, starting on November 30, 2015, the Governor issued a series of executive orders directing the Treasury Department of the Commonwealth of Puerto Rico (the Treasury Department) to retain certain available resources of the Commonwealth that were conditionally allocated to certain public corporations and agencies, including the Authority, to be used for other essential services pursuant to Article VI, Section 8 of the Constitution of the Commonwealth (commonly referred to as the "clawback"). As a result of the clawback, the Authority did not collect approximately $318 million in operating transfers during the fiscal year ended June 30, 2017. In addition, the Authority received various operating grants in the total aggregate amount of approximately $33 million, which were used to finance operating activities.

Investment income increased by approximately $8.7 million during the fiscal year ended June 30, 2017 due to certain gains generated from the cancellation of two guaranteed investment contracts. In addition, interest on bonds and lines of credit decreased by approximately $8.2 million during fiscal year 2017 principally due to the reduction in bonds payable outstanding as compared to the fiscal year ended June 30, 2016. Other non-operating expenses consist of a credit loss on deposits with governmental banks.

The Authority also received capital contributions from the U.S. federal government that may only be used for the construction of capital assets. Such capital contributions amounted to approximately $101.1 million during the fiscal year ended June 30, 2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2017, the Authority had approximately $10,024.9 million in capital assets, net of accumulated depreciation. Capital assets consist of roads, bridges, transportation equipment, buildings, land, construction in progress, and highways and bridges under concession agreements.

At the end of fiscal year 2005, the Authority started operating the mass rail transportation system for the San Juan metropolitan area known as "Urban Train". The Authority originally incurred approximately $2.42 billion in costs, of which $685.7 million was paid with federal funds. The Urban Train in San Juan consists of approximately 17km of track running from

Bayamón to Santurce. Maintenance services are partially funded with capital contributions from the Federal Transit Administration (FTA). Total operating grants received from FTA used for maintenance services amounted to approximately $18.5 million during the fiscal year ended June 30, 2017.

On September 22, 2011, the Authority entered into a toll road service concession agreement (the Toll Road Service Concession Agreement) with Autopistas Metropolitanas de Puerto Rico, LLC (Autopistas), in which the Authority granted Autopistas the right to finance, operate and maintain the PR-22 and PR-5 highways for a period of 40 years. During the 40-year term, Autopistas will have the right to charge and collect the tolls imposed on these highways as more fully described in Note 12 to the basic financial statements. On April 19, 2016, the Authority entered into an amendment of the Toll Road Service Concession Agreement to extend the original term for 10 additional years and to create five bi-directional tolling points on the PR-5 and PR-22 highways.

On December 20, 1992, the Authority and Autopistas entered into a service concession agreement (as amended in 1992, 2004 and 2009, the Bridge Service Concession Agreement, and together with the Toll Road Service Concession Agreement, the Service Concession Agreements) for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge, a toll bridge that crosses the San José Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Teodoro Moscoso Bridge, which began operating on February 23, 1994 as more fully described in Note 12 to the basic financial statements. Refer to Note 12 for other concession provisions.

During 2005, the Authority entered into a System and Test Track Turnkey Contract (STTT Contract) with Siemens Transportation Partnership Puerto Rico, S.E., Juan R. Requena y Asociados, and Alternate Concepts, Inc. (collectively, "Siemens") for the purpose of operating and maintaining the Urban Train. The STTT Contract expired on June 30, 2017 after various term extensions executed between both parties. During the fiscal year ended June 30, 2017, the total annual operation and maintenance cost of the Urban Train, including costs of insurance and electricity, was approximately $57.6 million, of which approximately $49 million was paid under the STTT Contract.

Effective as of July 1, 2017, the Authority entered into a new contract with ACI-Herzog for the purpose of operating and maintaining the Urban Train. The contract will expire in 15 years on June 30, 2032, unless the parties exercise an option to extend the term for an additional two periods of not less than 5 years, as long as the entire term does not exceed 25 years.

Debt Administration

As of June 30, 2017, the total aggregate principal amount of the Authority's bonds outstanding (net of unamortized premiums) amounted to approximately $4,533 million. On January 17, 2018, Moody's Investors Service (Moody's) lowered the Authority's senior debt rating to 'Ba3' from 'Ba1' and the insurance financial strength rating of National Public Finance Guarantee Corp. (National) to 'Baa2' from 'A3'. As a result, the Insured Rating on Moody's rated securities that are guaranteed by National and MBIA were also lowered to the related insurer ratings.

On March 2, 2018, Standard & Poor's Global Ratings (S&P) discontinued its "D" unenhanced rating on the Authority's Highway Revenue Bonds, Highway Revenue Refunding Bonds, Transportation Revenue Bonds, Transportation Revenue Refunding Bonds, and Subordinate Transportation Revenue Bonds.

The Authority also had approximately $1,733.7 million of lines of credit outstanding with the GDB that were in default because of lack of payment and remain in default as of the date of these basic financial statements.

As discussed further in Note 23 to the financial statements, the Authority defaulted on certain principal and interest payments due on its bonds payable.

CURRENTLY KNOWN FACTS

GOING CONCERN

The Authority's basic financial statements as of and for the fiscal year ended June 30, 2017, have been prepared assuming that the Authority will continue as a going concern. Therefore, these basic financial statements assume the liquidation of assets and liabilities in the ordinary course of the Authority's operations and do not include adjustments that may be required if the Authority is unable to continue as a going concern.

As explained in Note 5 to the financial statements, the number of uncertainties facing the Authority, the lack of sufficient resources to pay its liabilities as they become due and the proceedings initiated under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act, 48 U.S.C. §§ 2101, et seq. (PROMESA)—as explained in Notes 4 and 5 to the basic financial statements—have led management to conclude that there is substantial doubt as to the ability of the Authority to continue as a going concern.

HURRICANES IRMA AND MARIA

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico, bringing sustained winds of 155 miles per hour and significant rainfall over a 30-hour period. Hurricane Maria crossed Puerto Rico diagonally, entering through the Southeast and exiting through the Northwestern region. The hurricane caused catastrophic destruction in Puerto Rico, including severe damage to the electric power system, and left the island completely without power. Only two weeks prior to Hurricane Maria, Hurricane Irma—one of the strongest hurricanes ever recorded in the Atlantic—passed by Puerto Rico's north coast, substantially impairing an already weak infrastructure.

Hurricanes Irma and Maria severely damaged and destroyed buildings, roads and bridges owned by the Authority and affected the operations of the Urban Train. Management has initially determined that replacing or repairing the property damaged by these hurricanes will have a replacement cost of approximately $500 million. It is estimated that the amount will be financed with approximately $480 million of U.S. federal grant funding and approximately $20 million of

Authority funds. The Authority's roads and bridges incurred the most significant damages, which are not covered by insurance. Management continues to evaluate the Authority's property, which may reveal additional replacement or repair costs.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, and other interest parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions or need additional financial information, contact the Puerto Rico Highways and Transportation Authority, Finance Area, P.O. Box 42007, San Juan, Puerto Rico 00940-2007.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
JUNE 30, 2017

	2017
ASSETS	
Current assets:	
Cash and cash equivalents	$ 33,071,229
Accounts receivable, net	6,604,437
Prepaid expenses and other assets	10,411,763
Total current assets	50,087,429
Restricted assets:	
Cash and cash equivalents	46,534,764
Investments with trustee	78,559,659
Receivables:	
U.S. Federal government	19,683,281
Commonwealth of Puerto Rico	12,717,089
Accrued interest and other	1,254,873
Total restricted assets	158,749,666
Other Non-current assets:	
Capital assets, net	9,825,409,598
Highways and bridge under concession agreement, net	199,488,065
Other Post-employment benefit asset	574,065
Total other non-current assets	10,025,471,728
Total assets	10,234,308,823
DEFERRED OUTFLOWS OF RESOURCES -	
Deferred loss on advance refunding, net	93,315,163
Pension related	105,237,620
Total deferred outflows, net	198,552,783
Total assets and deferred outflow of resources	$ 10,432,861,606

Continues

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
JUNE 30, 2017

Continued

	2017
LIABILITIES	
Current liabilities:	
Accounts payable	73,779,953
Accrued and other liabilities	26,061,761
Accounts and subcontractors payable	98,476,302
Accrued interest payable on lines of credit and bonds payable	535,657,142
Current portion of accrued legal claims	13,216,894
Non revolving lines of credit	1,733,697,500
Current portion of bonds payable	130,725,000
Total current liabilities	2,611,614,552
Non-current liabilities:	
Accrued legal claims	91,406,511
Accrued vacations and sick leave	14,437,812
Voluntary termination incentive plan liability	50,897,761
Net pension liability	550,823,735
Bonds payable, net	4,402,477,926
Total non-current liabilities	5,110,043,745
Total liabilities	7,721,658,297
DEFERRED INFLOWS OF RESOURCES -	
Service concession agreement	1,138,102,691
Pension related	20,256,993
Total deferred inflows of resources	1,158,359,684
NET POSITION:	
Net investment in capital assets	2,621,106,494
Restricted for debt service	35,409,622
Restricted for construction	13,724,992
Deficit	(1,117,397,483)
Total net position	1,552,843,625
Total liabilities, deferred inflow of resources and net position	$ 10,432,861,606

The accompanying notes are an integral part of these financial statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	2017
OPERATING REVENUES:	
Toll and train fares	$ 143,201,988
Other income	28,838,089
Concession agreement	54,600,854
Total operating revenues	226,640,931
OPERATING EXPENSES:	
Salaries and related benefits	47,850,143
Post-employment benefits	25,015,860
Toll highways administration and maintenance	26,347,096
Train operating and maintenance costs	50,574,186
Integrated transportation system	14,568,681
Repairs and maintenance of roads and bridges	35,891,071
Utilities	9,288,234
Other	31,309,500
Total operating expenses	240,844,771
OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION	(14,203,840)
DEPRECIATION AND AMORTIZATION	452,995,369
OPERATING LOSS	(467,199,209)
NON-OPERATING REVENUES (EXPENSES):	
Operating transfers from the Commonwealth of Puerto Rico	140,339,005
Other expenses	(26,384)
Operating grants from U.S. Federal Government	33,037,581
Interest on bonds and lines of credit	(337,269,755)
Principal and interest on bonds paid by insurance company	3,355,125
Investment income	24,899,608
Net change in fair value of investments	(880,282)
Custodial credit risk loss on deposits with governmental bank	(51,498)
Total non-operating revenues (expenses), net	(136,596,600)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(603,795,809)
CAPITAL GRANTS	93,101,796
CHANGE IN NET POSITION	(510,694,013)
NET POSITION AT BEGINNING OF YEAR AS RESTATED	2,063,537,638
NET POSITION AT END OF YEAR	$ 1,552,843,625

The accompanying notes are an integral part of these financial statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	2017
OPERATING ACTIVITIES:	
Receipts from toll and train fares	$ 140,122,660
Receipts from other sources	43,948,219
Payments to employees and related benefits	(40,815,301)
Payments to suppliers for goods and services	(142,951,886)
Net cash provided by operating activities	303,692
NONCAPITAL FINANCING ACTIVITIES:	
Net change in checks issued over bank balance	(49,469)
Operating grants received	30,217,039
Net cash provided by noncapital financing activities	30,167,570
CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital grants received	99,425,570
Acquisition and construction of capital assets, net of capitalized interest	(209,013,326)
Receipts from gasoline, petroleum, cigarettes tax and vehicle license fees	128,818,340
Advances from service concession arrangement	15,000,000
Payments of bonds	(114,830,000)
Interest paid	(223,684,680)
Net cash used in capital and related financing activities	(304,284,096)
INVESTING ACTIVITIES:	
Withdrawals of cash and investments with trustee	349,006,455
Deposits to cash and investments with trustee	(28,019,216)
Investment and interest income received	17,778,392
Net cash provided by investing activities	338,765,631
NET INCREASE IN CASH AND CASH EQUIVALENTS	64,952,797
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,653,196
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 79,605,993

Continued

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Continues

	2017
RECONCILIATION TO CASH AND CASH EQUIVALENTS PRESENTED IN THE STATEMENT OF NET POSITION:	
Cash and cash equivalents	$ 33,071,229
Cash and cash equivalents - restricted	46,534,764
Total	$ 79,605,993
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	$ (467,199,209)
Adjustments to reconcile operating loss to net cash flows provided by operating activities:	
Depreciation and amortization	452,995,369
Revenue from concession agreements	(54,600,854)
Custodial credit risk loss on deposits with GDB	(51,498)
Deferred outflows of resources related to pension	(43,278,974)
Deferred inflows of resources related to pension	8,712,439
Other non-operating revenues	(26,384)
Net change in operating assets and liabilities:	
Accounts receivable	14,947,060
Prepaid expenses and other assets	439,664
Accounts payable	31,041,516
Accrued liabilities	(4,020,220)
Accrued legal claims	(6,139,461)
Accrued vacations and sick leave	(5,150,085)
Accrued voluntary incentive plan liability	19,279,269
Net pension liability	53,355,060
Net cash flows provided by operating activities	$ 303,692
SUPPLEMENTAL CASH FLOWS INFORMATION:	
Non-cash transactions:	
Improvement to roads under concession arrangements	$ 7,932,997
Custodial credit risk loss on deposits with governmental bank	$ 51,498
Revenue from service concession agreements	$ 54,600,854
Change in fair value of investments	$ 880,282
Bonds principal and interest paid by insurance company	$ 3,355,125
Bonds principal and interest paid by third party (Teodoro Moscoso Bonds)	$ 36,267,544

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION

Puerto Rico Highways and Transportation Authority (the Authority) is a public corporation and component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Act No. 74 of June 23, 1965, as amended (Act No. 74-1965), to design, construct and administer toll roads, highways, and other facilities for the movement of persons, vehicles and vessels, and for the planning, promotion and feasibility of mass transportation systems. As a component unit of the Commonwealth, the Authority is included in the basic financial statements of the Commonwealth. The Authority is governed by a seven-member board of directors empowered to approve, amend, and revoke any regulations necessary to perform its duties and to control the Authority's capital and operational budget. With the enactment of PROMESA on June 30, 2016, some of these powers may also require approval by the Financial Oversight and Management Board for Puerto Rico (the Oversight Board). Refer to Note 4 of the basic financial statements for additional information regarding PROMESA and the Oversight Board. In addition, as discussed in Notes 4 and 5 to the basic financial statements, on May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Authority by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. The Authority currently operates as a debtor in such Title III case.

The basic financial statements presented herein relate solely to the Authority's financial position and results of operations and are not intended to present the financial position of the Commonwealth or the results of its operations or cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America (GAAP), as promulgated in Governmental Accounting Standard Board (GASB) pronouncements.

The Authority's operations are accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflow of resources associated with the Authority's operations are included on the statement of net position. Revenue is recognized in the period in which it was earned and expenses are recognized in the period in which it was incurred.

The Authority accounts for its operations and financing in a manner similar to private business enterprises. The intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Such accounts and these basic financial statements have been prepared on the basis that the Authority will continue as a going concern and as a legally separate governmental entity and component unit of the Commonwealth.

Cash and Cash Equivalents

The Authority considers as cash and cash equivalents all highly liquid investments with original maturities within three months or less from the date of purchase.

Investments

The Authority reports investments on the statement of net position at fair value and investment income, including changes in the fair value of investments, are reported as non-operating revenue/(expense) in the statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values as of June 30, 2017.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Capital Assets

Cost basis - Capital assets are recorded at historical cost or acquisition value for donated assets. The cost of property and equipment includes costs for infrastructure assets (rights of way, bridge substructures, highways and bridges), toll facilities, equipment and other related costs (including software), buildings, and furniture. Highways and bridge substructures include road subbase, grading, land clearing, embankments, and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses associated to the project.

Capitalization Policy - Infrastructure capital assets (road, bridges, highways, transportation equipment, etc.) are defined by the Authority as assets with an initial, individual cost of more than $500,000 and an estimated useful life of more than one year. Other capital assets, such as equipment, vehicles, etc. are defined by the Authority as assets with an initial individual cost of more than $100 and an estimated life of more than three years.

Costs to acquire additional capital assets, which replace existing assets or otherwise extend their useful lives, are generally capitalized.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are expensed as incurred.

Interest cost is capitalized as part of the historical cost of acquiring or constructing certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of tax-exempt borrowings arrangements restricted for the acquisition of qualifying assets is offset against interest cost to determine the net amount to be capitalized. Interest cost is not capitalized on costs paid with the proceeds of grants or donations restricted solely for construction.

Depreciation of Capital Assets - Depreciation is provided using the straight-line method over an estimated useful life of 40 years for new roads and highways, 50-59 years for new bridges and transportation system (including transportation equipment and facilities), 20 years for bridge improvements, 15 years for road repavement and 10 years for equipment, vehicles and others.

Impairment of Capital Assets - The Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

The Authority evaluated its capital assets and determined that there was no impairment as of June 30, 2017. Refer to Note 23 for damages to certain Authority's capital assets caused by hurricanes Irma and Maria.

Service Concession Agreements

The Authority has entered into service concession agreements under which it has transferred the administration and operation of certain infrastructure assets to private organizations in exchange for concession fees. Amounts collected in advance are reported as deferred inflows of resources and are amortized into concession revenue in a systematic and rational manner over the term of the agreements. The assets are still owned by the Authority and, therefore, are reported in the Authority's basic financial statements. Improvements performed by Metropistas and Autopistas to the transferred assets are capitalized by the Authority. See Note 12 for additional information regarding the service concession agreements in effect as of June 30, 2017.

Claims and Judgments

The estimated amount of liability for claims and judgments is recorded on the accompanying statement of net position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future. Refer to Note 20 for additional information regarding the status of the Authority's key litigation as of the date of these basic financial statements.

Vacation and Sick Leave

Employees earn annual vacation leave at the rate of 15 days per year up to a maximum permissible accumulation of 60 days. Employees accumulate sick leave at the rate of 18 days per year. Maximum permissible accumulation for sick leave is 90 days for all employees. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrue to employees.

The cost of vacation and sick leave expected to be paid in the next twelve months is classified as current and accrued liabilities while amounts expected to be paid after twelve months are classified as non-current liabilities.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Employee Retirement System (ERS) of the Commonwealth and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at estimated fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses) until then. The Authority has two items that qualify for reporting in this category, the deferred loss on advance refunding, and deferred pension expense.

Losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount amortized is reported as a component of interest expense.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Authority has two items that qualify for reporting in this category, the deferred service concession agreements and pension investment experience.

A deferred outflow/inflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

Bond Premiums (Discounts) and Bond Issuance Costs

Bond issuance costs are reported as expense during the year they are incurred.

Amortization related to bond premiums (discounts) were approximately $13.9 million for the fiscal year ended June 30, 2017, and are included as a component of interest expense in the accompanying statements of revenues, expenses and changes in net position.

Net Position

Net position is classified in the following four components in the accompanying statement of net position:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at fiscal year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount are not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted for Debt Service - Consists of restricted assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction - Consists of restricted assets for the specific purpose of

financing the construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted - Unrestricted net position consists of net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of net position. As of June 30, 2017, the Authority has an accumulated deficit of approximately $1,117.4 million. Refer to Note 5 for further information regarding the Authority's ability to continue as a going concern.

Revenue Recognition

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with toll and train fares are recorded as operating revenues when cash is received, except for prepaid amounts that are recognized when earned. Expenses related to the administration and maintenance of toll highways and transportation system, repair and maintenance of roads and bridges, and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Non-operating revenues consist principally of operating transfers allocated to the Authority by the Commonwealth and United States federal government to finance the Authority's operations.

Capital and Operating Grants

Capital and operating grants are funds assigned by the federal and local governments, such as Federal Highways Administration (FHWA) and Federal Transit Administration (FTA), to the Authority for the construction of specific projects or infrastructure repairs and maintenance. These are reported as capital and operating grants as required by GASB Statement No. 33, *Accounting and Financial Reporting for Non exchange Transactions.*

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage for the fiscal years ended June 30, 2017, 2016 and 2015.

Effects of New Accounting Standards

During the fiscal year ended June 30, 2017, the Authority implemented the following GASB pronouncements:

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and Amendment of GASB Statement No. 27

GASB Statement No. 68 was issued to improve accounting and financial reporting by state and local governments for pensions. This statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*.

This statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This statement was effective for the fiscal year ended June 30, 2015, but was not implemented by the Authority until fiscal year 2017. Refer to Note 3 and Note 16 for additional information about the implementation of GASB Statement No. 68.

GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment to GASB Statement No. 68.

GASB Statement No. 71 addresses an issue regarding the application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB Statement No. 71 was effective for the fiscal year ended June 30, 2015, but was not implemented by the Authority until fiscal year 2017. Refer to Note 3 and Note 16 for additional information about the implementation of GASB Statement No. 71.

3. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

The Authority has determined that a restatement to the July 1, 2016 beginning net position was required to recognize the change in accounting principle for the implementation of GASB Statement Nos. 68 and 71, through which accounting for pension plans and the related disclosure requirements were modified.

In addition, during the fiscal year ended June 30, 2017, the Authority revised the accounting of the Bridge Service Concession Agreement described in Note 12 to the basic financial statements and determined that the bonds outstanding related to the Teodoro Moscoso Bridge needed to be recorded in the Authority's basic financial statements and that the amount of concession revenue recognized in prior years needed to be revised.

As a result of this adjustment and the implementation of GASB Statement Nos. 68 and 71, the Authority's beginning net position was changed as follows:

Net position, at beginning of fiscal year as previously reported	$2,569,882,860
Prior period adjustment:	
Implementation of GASB Statement nos. 68 and 71:	
Net pension liability (measurement date June 30, 2015)	(434,409,894)
Deferred outflows (contributions made during fiscal year June 30, 2016)	14,027,819
Net adjustment to bridge concession agreement	(85,963,147)
Total prior period adjustment	(506,345,222)
Net position, at beginning of fiscal year as restated	$2,063,537,638

4. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

Overview of PROMESA

On June 30, 2016, President Barack Obama signed PROMESA into law (as codified under 48 U.S.C. §§ 2101-2241). In general terms, PROMESA seeks to provide the Commonwealth and its covered instrumentalities with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA, which expired on May 1, 2017; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, *et seq.*). Relevant elements of PROMESA are discussed below.

- **Title I — Establishment of Oversight Board and Administrative Matters**

Upon PROMESA's enactment, the Oversight Board was established for the Commonwealth. *See* PROMESA § 101(b). As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." PROMESA § 101(a). On August 31, 2016, President Obama announced the appointment the Oversight Board members. Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government." PROMESA § 101(f)(1). The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, *see* PROMESA § 101(c), but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislative Assembly of Puerto Rico (the Legislative Assembly) may "(i) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (ii) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of PROMESA, as determined by the Oversight Board." PROMESA § 108(a). Please refer to the language of PROMESA for a complete description of the Oversight Board and its powers.

- **Title II — Fiscal Plan and Budget Certification Process and Compliance**

Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities. "Each fiscal plan serves as the cornerstone for structural reforms the Oversight Board deems necessary to ensure the territory, or instrumentality, will be on a path towards fiscal responsibility and access to capital markets." H.R. Rep. 114-602(I), 2016 WL 3124840, at *45 (2016); PROMESA § 201(b)(1). According to the legislative history, a fiscal plan should "provide for a sustainable level of debt, improve governance, provide for capital expenditures that promise economic growth, and respect the relative priorities that different classes of bondholders have vis-à-vis one another under Puerto Rico law." H.R. Rep. 114-602(I), 2016 WL 3124840, at *112 (2016). PROMESA section 201 sets forth the specific requirements for a fiscal plan and the process for fiscal plan approval.

Only after the Oversight Board has certified a fiscal plan may the Governor submit a fiscal year Commonwealth budget and fiscal year budgets for certain Commonwealth instrumentalities (as determined by the Oversight Board) to the Legislative Assembly. *See* PROMESA § 201(c)(1). PROMESA section 202 sets forth the specific procedures and requirements for approval of each fiscal year Commonwealth budget and Commonwealth instrumentality budgets.

In furtherance of the foregoing duties, PROMESA contains a provision that grants the Oversight Board powers to monitor compliance with certified fiscal plans and budgets and undertake certain actions, including spending reductions and the submission of recommended actions to the Governor that promote budgetary compliance. Please refer to the language of PROMESA for a complete description of the Oversight Board's powers related to fiscal plan and budgetary compliance.

- **Title III – In-Court Restructuring Process**

Title III of PROMESA establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code. In order to be a debtor under Title III, the territory and/or its instrumentalities must: (i) have an Oversight Board established for it or be designated a "covered entity"; (ii) have the Oversight Board issue a restructuring certification under PROMESA section 206(b); and (iii) "desire to effect a plan to adjust its debt." PROMESA § 302. The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA. *See* PROMESA § 304(a). As of the date hereof, the Oversight Board has commenced Title III cases for the Commonwealth, the Puerto Rico Sales Tax Financing Corporation (COFINA), ERS, the Puerto Rico Electric Power Authority (PREPA), and the Authority, as discussed below.

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. *See* PROMESA § 315. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). After the Title III case is commenced, the Chief Justice of the United States Supreme Court must designate a district court judge to sit by designation and preside over the Title III proceedings. PROMESA also provides that the commencement of a Title III case "does not limit or impair the powers of a covered territory to control by legislation or otherwise the exercise of the political or governmental powers of the territory or territorial instrumentality." PROMESA § 303.

The core component of the Title III case is the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation. *See* PROMESA § 312. In order to be confirmed, a proposed plan of adjustment must meet the requirements set forth under PROMESA section 314.

- **Title IV – Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions**

Title IV of PROMESA contains several miscellaneous provisions, including a temporary stay of litigation related to "Liability Claims," relief from certain wage and hour laws, the establishment of a Congressional Task Force on Economic Growth in Puerto Rico (the Task Force), the requirement that the Comptroller General of the United States submit two reports to Congress regarding the public debt levels of the U.S. territories, and expansion of the federal government's small business HUBZone program in Puerto Rico.

Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV Stay) from June 30, 2016 (the date of PROMESA's enactment) through February 15, 2017 of all "Liability Claim" litigation commenced against the government of Puerto Rico and its instrumentalities after December 18, 2015. *See* PROMESA § 405(d)(1)(A). A "Liability Claim" is defined as any right to payment or equitable remedy for breach of performance related to "a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related thereto" for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016. PROMESA § 405(a)-(b). The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the district court. On January 28, 2017, the Oversight Board extended the stay by 75 days to May 1, 2017, at which time the Title IV Stay expired. Any party subject to the Title IV Stay could have filed a motion in the United States District Court for the District of Puerto Rico seeking a relief from the Title IV Stay upon "cause shown." PROMESA § 405(e).

Commencement of Title III Cases

On May 1, 2017, the Title IV Stay expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities (including the Authority) to resume. On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. On May 5, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for COFINA by filing a similar petition for relief under Title III of PROMESA. On May 11, 2017, the Chief Justice of the United States designated United States District Court Judge Laura Taylor Swain as the presiding judge in the Title III cases.

On May 21, 2017, the Oversight Board, at the request of the Governor, commenced Title III cases for the Authority and ERS by filing similar petitions for relief under Title III of PROMESA. On July 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for PREPA by filing a similar petition for relief under Title III of PROMESA. All of the foregoing Title III cases have been consolidated for procedural purposes only and are being jointly administered under Case No. 17-3283-LTS in the United States District Court for the District of Puerto Rico. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees and an Official Committee of Unsecured Creditors in the Commonwealth's Title III case.

The Title III cases were commenced in part due to the May 1, 2017 expiration of the Title IV Stay. Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Title III cases, the Title III Stay immediately went into effect to stay creditor litigation.

5. GOING CONCERN

The discussion in the following paragraphs regarding the Authority's financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the date of these basic financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter.

GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption may relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. The following indicators are factors considered in this evaluation: (i) negative trends in operating losses and negative cash flows; (ii) possible financial difficulties such as nonpayment or default of debt and/or restructuring or noncompliance with capital or reserve requirements; and (iii) internal or external matters impacting the governmental entity's ability to meet its obligations as they become due. The Authority faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due.

The risks and uncertainties facing the Authority together with other factors further described below, have led management to conclude that there is substantial doubt as to the ability of the Authority to continue as a going concern in accordance with GASB Statement No. 56.

The accompanying basic financial statements have been prepared assuming that the Authority will continue as a going concern and therefore assumes the liquidation of assets and liabilities in the normal course of the Authority's operations and does not include adjustments that might be required if the Authority is unable to continue as a going concern.

Overview of Financial Position

The Authority has experienced significant recurring losses from operations and faces many business challenges that have been exacerbated by the Commonwealth's economic recession. Its principal challenges, some of which are interrelated, are: (i) reducing operating costs; (ii) maximizing revenues; and (iii) improving liquidity.

During the fiscal year ended June 30, 2017, the Authority incurred a loss before capital grants and transfers of approximately $604 million. As of June 30, 2017, the Authority's

current liabilities exceeded its current assets by approximately $2,561.5 million, and the Authority had an accumulated deficit of approximately $1,117.4 million.

The Authority borrowed more than $2 billion from the GDB in previous fiscal years to finance infrastructure projects and pay operational expenses. These borrowings, in the form of lines of credit, had no source of repayment. The total aggregate outstanding balance of these lines of credit was $1.7 billion as of June 30, 2017. These lines of credit expired in January 2016 and are currently in default.

As discussed below, the Authority does not currently have sufficient funds available to fully repay its various obligations as they come due or that are currently in default, and is currently in a debt restructuring proceeding under Title III of PROMESA. Additionally, significant support and funding for obligations of the Authority that have previously been provided by the Commonwealth or GDB are not likely to continue. The Commonwealth is experiencing financial difficulties and may be unable to continue to extend, refinance or otherwise provide the necessary liquidity to the Authority as and when needed. As such, current defaults may not be cured and future defaults on the Authority's obligations may not be avoided.

The Commonwealth had previously conditionally allocated to the Authority certain taxes and other revenues. The Commonwealth is in the midst of a profound fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debts and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pensions and debt service costs. On November 30, 2015, the Governor issued Executive Order 2015-046, which directed the Treasury Department to retain, among other things, certain gasoline, oil, diesel, and petroleum taxes that the Commonwealth had previously conditionally allocated to the Authority (commonly referred to as the "clawback"). These revenues were retained by the Commonwealth for the payment of essential government services.

On April 6, 2016, the Commonwealth enacted Act No. 21 of 2016, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (as amended, the Moratorium Act). Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Commonwealth and several of its instrumentalities, including the Authority.

Pursuant to these executive orders, certain Commonwealth entities have either: (i) not made debt service payments, (ii) made debt service payments with funds on deposit with the trustees of their bonds, and/or (iii) not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at GDB and suspended the disbursement of loans by GDB. These executive orders restricted the Authority's ability to withdraw any funds held on deposit at GDB and to receive any disbursements on loans granted by GDB. These executive orders also extended the "clawback" of available resources that were previously conditionally allocated to the Authority by suspending the obligation of the Commonwealth to transfer those revenues to the Authority.

On January 29, 2017, the Governor signed into law Act No. 5 of 2017, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act (as amended, Act No. 5), which repealed certain provisions of the Moratorium Act and authorized additional emergency measures. Pursuant to Act No. 5, however, the executive orders issued under the Moratorium Act would continue in effect until amended, rescinded or superseded. The emergency period under Act No. 5 will expire December 31, 2018 unless extended by the Governor. Some additional powers provided to the Governor through Act No. 5 include the authority to: (i) exercise receivership powers to rectify the financial emergency, (ii) exercise general supervisory control over the functions and activities of all government entities within the Executive Branch, and (iii) issue executive orders to implement and enforce compliance with Act No. 5.

The Moratorium Act and related executive orders have had a significant negative effect on the Authority's liquidity. During the fiscal year ended June 30, 2017, the Authority did not receive taxes amounting to approximately $318 million. There is no indication that the conditional allocation of gasoline, oil, diesel, and petroleum taxes to the Authority will resume.

Defaults

On July 1, 2016, the Authority defaulted on the debt service principal and interest for one of its outstanding bond series. Subsequently on January 1, 2017, the Authority again defaulted on the debt service interest for the same bond series. Also, subsequent to June 30, 2017, as explained in Note 23 to the financial statements, the Authority has defaulted on substantially all debt service principal and interest of all bond series. Without the taxes and other revenues conditionally allocated by the Commonwealth as explained above, the Authority has been unable to make the scheduled payments on its outstanding bonds and fund its reserve accounts accordingly.

As of June 30, 2017, the total aggregate amount of principal and interest defaulted on the Authority's outstanding bonds was approximately $5.6 million. From this amount, approximately $3.4 million was paid by the insurance company under the financial guarantee insurance policy.

GDB No Longer Provides Financial Support to the Authority

Historically, the Authority has been highly reliant on GDB for liquidity and financial management support in the past.

GDB, has traditionally served as interim lender to the Commonwealth, its component units, and municipalities in anticipation of the issuance of long-term bonds and notes by such entities in the municipal bond market. GDB has also provided financing to the Commonwealth and its component units to finance their respective operational deficits. As a result, GDB liquidity and financial conditions depend to a large extent on the repayment of loans made to the Commonwealth and its component units. GDB faces significant risks and uncertainties and currently does not have (and is not expected to have) sufficient liquid financial resources to meet its obligations in full.

On March 23, 2018, GDB ceased its operations. On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims exchanged their claims for bonds issued by a newly created public instrumentality, the GDB Debt Recovery Authority, and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. As a result of the Qualifying Modification, loans in the total aggregate amount of approximately $1.9 billion owed by the Authority to GDB were transferred to the GDB Debt Recovery Authority.

In addition, pursuant to Act No. 109 of 2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. As a result of the foregoing adjustment, all of the Authority's deposits at GDB were extinguished as a result of the Qualifying Modification. Due to the closing of the Qualifying Modification and the wind-down of GDB, the Authority will also no longer be able to rely on GDB for future liquidity.

Management's Remediation Plan and Commencement of Title III Case

On March 13, 2017, the Authority presented to the Oversight Board its fiscal plan for the ensuing ten years. Faced with the challenges discussed above, the Authority developed a fiscal plan focusing on: (i) infrastructure agenda; (ii) memorandum of understating with its federal grantor agencies geared at revamping the Authority's project and program delivery capabilities; (iii) fiscal initiatives and organizational transformation; and (iv) debt sustainability. On April 28, 2017, the Oversight Board approved the fiscal plan for the Authority and recommended certain amendments.

On May 21, 2017 (the Petition Date), the Oversight Board, at the request of the Governor, filed a petition for relief for the Authority under Title III of PROMESA. As of the Petition Date, the total aggregate debt of the Authority was estimated to be approximately $4.291 billion, excluding approximately $1.733 billion in GDB lines of credit.

After the passage of Hurricanes Irma and Maria in September 2017, the Oversight Board requested the Authority to submit a revised fiscal plan for the Authority. On April 20, 2018, the Oversight Board certified its own revised fiscal plan for the Authority, which was subsequently revised and recertified on June 29, 2018. On August 2, 2018, the Oversight Board requested additional revisions to the Authority's certified fiscal plan to address new information, including full fiscal year 2018 revenue actuals, revised federal disaster spending estimates, and an adjustment to demographic projections. As of the date of these basic financial statements, no revised fiscal plan has been certified for the Authority and the June 29, 2018 certified fiscal plan for the Authority remains in effect.

There is no certainty that the certified fiscal plan (as revised and amended) will be fully implemented, or if implemented will ultimately provide the intended results. All of these fiscal plans and measures, and the Authority's ability to reduce its deficits, achieve a balanced budget, and pay its obligations in the normal course of business depend on a number of factors and risks, some of which are not wholly within its control.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2017, consisted of:

	2017
Cash on hand and in banks	$ 24,976,358
Certificates of deposit	8,094,871
Total	$ 33,071,229

Cash and cash equivalents include certificates of deposit with local commercial banks. Certificates of deposit with the Economic Development Bank (EDB) in the total aggregate amount of $5.8 million at June 30, 2017, were fully reserved in both fiscal years 2017 and 2016 as further described in Note 10 to the basic financial statements.

In addition, as of June 30, 2017, the Authority held deposits with the GDB in the total aggregate amount of approximately $54.4 million which were fully reserved in both fiscal years 2017 and 2016 as further described in Note 10 to the basic financial statements.

7. ACCOUNTS RECEIVABLE, NET

Accounts receivable at June 30, 2017, consisted of:

		2017
Government, agencies and others	$	55,818,373
Rent receivables		4,981,998
Repairs to highways recoverable from users		1,553,217
Electronic Toll System Operator		6,470,199
Other		5,068,618
Total		73,892,405
Less allowance for doubtful accounts		(67,287,968)
Accounts receivable, net	$	6,604,437

Receivables from governmental entities consist of charges made to various government agencies, public corporations and municipalities of the Commonwealth in previous fiscal years. Most of these amounts are significantly overdue and are included in the allowance for doubtful accounts as of June 30, 2017.

8. RESTRICTED CASH, CASH EQUIVALENTS, AND INVESTMENTS WITH TRUSTEE

Restricted cash, cash equivalents and investments with trustee at June 30, 2017, consisted of:

		2017
Cash on hand and in banks	$	46,534,764
Investments with trustee:		
Mutual funds	$	63,883,656
Guaranteed investment contracts		7,903,918
US Government securities		6,772,085
Investments with trustee	$	78,559,659

At June 30, 2017, the above amounts were restricted to comply with long-term principal and interest debt service requirements or for construction of transportation facilities. These restricted assets are held by Bank of New York (the Fiscal Agent) under Resolutions 1968-18, 1998-06 and 2004-18 (collectively, the Bond Resolutions) in the following funds and accounts:

1968 Reserve Account - Reserve for payment of principal and interest on Highway Revenue Bonds in the event moneys in Bond Service Account or Redemption Account under Resolution 1968-18 are insufficient for such purpose.

1968 Bond Service Account and Redemption Account (Sinking Fund) under Resolution 1968-18) - Current year requirements for principal and interest on

Highway Revenue Bonds.

1998 Senior Reserve Account - Reserve for payment of principal and interest on Senior Transportation Revenue Bonds in the event moneys in Senior Bond Service Account or Senior Bond Redemption Account under Resolution 1998-06 are insufficient for such purpose.

1998 Senior Bond Service Account and Senior Bond Redemption Account **(Senior Bond Sinking Fund under Resolution 1998-06)** - Current year requirements for principal and interest on Senior Transportation Revenue Bonds.

1998 Subordinated Reserve Fund - Reserve for payment of principal of and interest on Subordinated Transportation Revenue Bonds in the event moneys in Subordinated Bond Service Account or Subordinated Bond Redemption Account under Resolution 1998-06 are insufficient for such purpose.

1998 Subordinated Bond Service Account and Subordinated Bond Redemption Account (Subordinated Bond Sinking Fund under Resolution 1998-06) - Current year requirements for principal of and interest on Subordinated Transportation Revenue Bonds.

At June 30, 2017, amounts held by Trustee in the following accounts amounted to:

	2017
1968 Reserve Account	$ 44,961,318
1968 Sinking Fund	16
1998 Senior Reserve Account	27,886,749
1998 Senior Sinking Fund	1,017,571
1998 Subordinated Reserve Fund	2,383,143
Others	2,310,862
Total	$ 78,559,659

As explained in Note 5 to the financial statements, the Governor issued executive orders 2016-18 (EO 18) and 2016-031 (EO 31) pursuant to the Moratorium Act. These orders authorized the Authority to apply toll revenues to fund essential services and suspended transfers to the fiscal agent under Resolution 1968-18 dated June 13, 1968, as amended, and Resolution 1998-06 dated February 26, 1998, as amended. In addition, EO 31 suspended the transfer of certain conditionally allocated revenues to the GDB to the extent that those revenues are needed by the Authority to finance its operational expenses and/or pay for essential services. Therefore, the balance in deposit at June 30, 2017 was below the minimum amount required by Bond Resolution 1968-18 and 1998-06 by approximately $27.5 million and $212.1 million, respectively.

9. FAIR VALUE MEASUREMENTS

In 2016, the Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. GASB Statement No. 72 sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has ability to access.

Level 2 - Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in active markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes observable requires judgment by the Authority's management. The Authority's management considers observable data to be market data that is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to Authority's management perceived risk of that investment.

The Authority has the following recurring fair value measurements as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Debt Securities:				
U.S government obligations	$ -	$ 6,772,085	$ -	$ 6,772,085
Investments valued at net asset value of amortized cost:				
Mutual funds				63,883,656
Guaranteed investment contracts				7,903,918
Total				$ 78,559,659

When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy.

For investments classified within Level 2 of the fair value hierarchy, the Authority's custodians generally use a multidimensional relational model. Inputs to their pricing models are based on observable market inputs in active markets. The inputs to the pricing models are typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

The Authority does not have any investments that are measured using Level 3 inputs.

10. DEPOSITS AND INVESTMENTS

The Authority is restricted by law to deposit funds only in institutions approved by the Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority. The Bond Resolutions require that moneys in the debt service funds be held by the Fiscal Agent in trust and applied as provided in the Bond Resolutions.

Pursuant to the Investment Guidelines under the Bond Resolutions, the Authority may invest in obligations of the Commonwealth, obligations of the United States federal government, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States federal government, or obligations unconditionally guaranteed by the United States federal government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

Custodial Credit Risk - Deposits

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. Under Puerto Rico law, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. Deposits maintained in GDB and EDB are exempt from collateral requirement established by the Commonwealth and thus represents custodial credit risk because in the event of GDB's or EDB's failure, the Authority may not be able to recover the deposits.

All monies deposited with the Trustee or any other depository institution hereunder in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency are continuously secured by lodging with a bank or trust company approved by the Authority and by the Trustee as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations or other marketable securities.

At June 30, 2017, the Authority's deposits maintained in governmental and commercial banks are as follows:

	2017			
	Unrestricted		Restricted	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Commercial banks	$ 33,390,950	$ 32,024,187	$ 46,534,764	$ 46,534,760
Governmental banks	-	12,687,877	-	47,528,048
	$ 33,390,950	$ 44,712,064	$ 46,534,764	$ 94,062,808

Custodial Credit Risk Loss on Deposits with Government Development Bank (GDB) and Economic Development Bank (EDB)

As described in Note 5 above, on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. Under the Qualifying Modification and the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. As a result of this foregoing adjustment, all of the Authority's deposits at GDB were extinguished as a result of the Qualifying Modification and were fully reserved at June 30, 2017.

In addition, the Authority has certificates of deposit with EDB in the total aggregate amount of approximately $5.8 million as of June 30, 2017. Management believes that EDB

faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due. As a result, all certificates of deposit held with EDB were fully reserved as of June 30, 2017.

A summary of deposits in GDB and EDB at June 30, 2017 were as follows:

	2017
Government Development Bank	$ 54,379,401
Economic Development Bank	5,782,249
Total	60,161,650
Less: custodial credit risk loss	(60,161,650)
Net deposits in governmental banks	$ -

Total aggregate amount of custodial credit risk loss on the above deposits recorded during the fiscal year ended June 30, 2017, was approximately $51,500.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that in the event of the failure of the counterpart, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority invests in prime investments with a minimum quality rating of Aa1 (Moody's) or AA+ (S&P). In addition, investments in bond sinking funds are limited to direct obligations of the United States federal government, or obligations unconditionally guaranteed by the United States federal government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

The Authority maintains funds and accounts under the Bonds Resolutions that are held by a trustee. As of June 30, 2017, the total aggregate amount of investments held by the trustee was approximately $78.6 million. These accounts invest on different types of short-term and long-term securities, including Guaranteed Investment Contracts (GICs). Under these GICs, the financial institution guarantees the Authority a fixed rate of return. As established in the GIC, the financial institution has invested such funds in predetermined securities such as cash, U.S. Treasury and U.S. Government Agency securities. These securities are pledged and serve as collateral for the account balance. The fair value of the GICs is determined based on the fair value of the underlying investments based on quoted market prices and then adjusted to contract value. As of June 30, 2017, the contract value, which represents amounts deposited plus interest credited less withdrawals, is equal to the fair value.

Providers of guaranteed investment contracts as of June 30, 2017, are as follows:

	2017
FSA Capital Management Services	$ 7,903,918

Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes to market interest rate.

Maturities of investments with the trustee at June 30, 2017, were as follows:

	2017				
	Less than One Year	One to Five Years	Five to Ten Years	Ten to Twenty Years	Total
Mutual funds	63,883,656	-	-	-	63,883,656
Guaranteed investment contracts	-	-	-	7,903,918	7,903,918
US Government and agencies securities	-	6,772,085	-	-	6,772,085
Total	$ 63,883,656	$ 6,772,085	$ -	$ 7,903,918	$ 78,559,659

11. CAPITAL ASSETS, NET

The following schedule summarizes the capital assets, net, held by the Authority as of June 30, 2017:

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
Assets not being depreciated				
Land	$ 1,915,685,326	$ 100,254	$ -	$ 1,915,785,580
Construction in progress	345,884,231	163,868,194	(29,453,949)	480,298,476
Total assets not being depreciated	2,261,569,557	163,968,448	(29,453,949)	2,396,084,056
Assets being depreciated				
Transportation system	2,419,375,826	-	-	2,419,375,826
Roads	12,899,545,663	25,964,451	-	12,925,510,114
Bridges	3,529,772,815	2,144,292	-	3,531,917,107
Buildings	22,500,000	-	-	22,500,000
Equipment, vehicles and other	134,562,090	484,160	(1,223,314)	133,822,936
Total	19,005,756,394	28,592,903	(1,223,314)	19,033,125,983
Less accumulated depreciation	(11,153,680,077)	(451,329,804)	1,209,440	(11,603,800,441)
Total assets being depreciated	7,852,076,317	(422,736,901)	(13,874)	7,429,325,542
Total capital assets, net	$ 10,113,645,874	$ (258,768,453)	$ (29,467,823)	$ 9,825,409,598

The total aggregate amount of interest expense incurred during the fiscal year ended June 30, 2017, was approximately $337.3 million, of which approximately $2.7 million was capitalized as part of construction in progress in the accompanying statement of net position.

12. HIGHWAYS AND BRIDGE UNDER SERVICE CONCESSION AGREEMENTS

Highways and bridge under Service Concession Agreements as of June 30, 2017 is summarized as follows:

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
Toll roads (PR 5 and PR 22)	$ 310,391,908	$ -	$ -	$ 310,391,908
Toll roads concession improvements	40,712,997	7,932,998	-	48,645,995
Bridge	109,500,000	-	-	109,500,000
Total	460,604,905	7,932,998	-	468,537,903
Less accumulated depreciation	(267,384,273)	(1,665,565)	-	(269,049,838)
Total	$ 193,220,632	$ 6,267,433	$ -	$ 199,488,065

Toll Road Service Concession Agreement (PR-5 and PR-22)

On September 22, 2011, the Authority entered into the Toll Road Service Concession Agreement with Autopistas Metropolitanas de Puerto Rico, LLC (Metropistas), in which the Authority granted to Metropistas the right to operate PR-5 and PR-22 highways (the Toll Roads) for a period of 40 years. During the 40-year term, Metropistas will have the right to charge and collect the tolls imposed on the Toll Roads.

The Authority received an upfront concession fee payment of $1,136 million, of which approximately $873.1 million was used to redeem or defease bonds issued and outstanding associated with the Toll Roads.

The Authority recorded a deferred inflow of resources from the Toll Road Service Concession Agreement of $1,136 million that is being amortized and recognized as revenue over the 40 year term of the agreement. The Authority recognized $21.0 million of revenue related to this transaction and will recognize $28.4 million for each subsequent year through 2052. The Toll Roads (capital assets) will continue to be reported in the statement of net position as a separate item as highways and bridge under service concession agreements. As of June 30, 2017, the total aggregate amount of the Toll Roads capital assets was approximately $139.4 million, net of accumulated depreciation. Toll Roads depreciation was suspended on September 22, 2011 until the expiration of the Toll Road Service Concession Agreement because the agreement requires Metropistas to return the Toll Roads to the Authority in their original or an enhanced condition. However, improvements by Metropistas to the Toll Roads are depreciated over the estimated useful life.

On April 19, 2016, the Authority entered into an amendment of the Toll Road Service Concession Agreement to extend the original term for 10 additional years and to create five bidirectional tolling points on the Toll Roads. The Authority received an upfront concession fee payment of $100 million, which was used to pay $18.2 million of the Authority's current debts and $79.8 million was transferred to the Commonwealth in fiscal year 2016. Also in June 2017, the Authority received an additional $15 million payment concurrently with the commencement of the bidirectional system described above.

In addition, the Authority capitalized and considered as deferred inflows of resources $7.9 million during the fiscal year ended June 30, 2017, for improvements made by Metropistas to the Toll Roads.

Bridge Service Concession Agreement

On December 20, 1992, the Authority and Autopistas de Puerto Rico LLC (Autopistas) entered into the Bridge Service Concession Agreement, for the design, construction, operation and maintenance of the Bridge, a toll bridge, which crosses the San José Lagoon between the municipalities of San Juan and Carolina known as Teodoro Moscoso Bridge. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994 (valuation date). The initial term of this agreement was 35 years, expiring on April 3, 2027. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044).

As of June 30, 2013, the Authority recognized the Teodoro Moscoso Bridge at fair value, equivalent to what the Authority might have paid to have the Teodoro Moscoso Bridge constructed (replacement cost) at valuation date. The replacement cost was determined to be $109.5 million depreciated over an estimated useful life of 59 years. The asset balance related to the Teodoro Moscoso Bridge was adjusted to recognize the first 17 years of operations and the remaining amortization will be amortized over 42 years. The Teodoro Moscoso Bridge is being depreciated because, in the opinion of management, the Bridge Service Concession Agreement does not require Autopistas to return the Teodoro Moscoso Bridge in its original condition. As of June 30, 2017, the net book value of the Teodoro Moscoso bridge was $60.1 million.

The Bridge Service Concession Agreement, as amended, requires Autopistas to pay 5% of the annual toll revenues to the Authority until February 22, 2027, then 61.5% of such revenues from February 23, 2027 through the end of the agreement. During the fiscal year ended June 30, 2017, Autopistas paid the Authority approximately $1.9 million related to the toll revenues.

On October 22, 2003, the Authority issued term and capital appreciation bonds in the total aggregate amount of approximately $153.2 million (the 2003 Bonds). The proceeds of these bonds were used to refund in advance the bonds previously issued in 1992 to finance the construction of the Teodoro Moscoso Bridge. The activity of the bonds during the fiscal year ended June 30, 2017, as recorded in the accompanying financial statements is as follows:

	Balance at June 30, 2016	Issuance/ Accretions	Payments/ Amortization	Balance at June 30, 2017
Term bonds	$ 114,115,000	$ -	$(29,105,000)	$ 85,010,000
Capital appreciation bonds	33,168,147	2,023,844	-	35,191,991
Total	$ 147,283,147	$ 2,023,844	$(29,105,000)	$120,201,991

Under the terms of the Bridge Service Concession Agreement, Autopistas is responsible for the debt service payment on the bonds unless the agreement is terminated as specified in the Bridge Service Concession Agreement. Because the bonds are being paid by Autopistas, the Authority will record as concession revenue the amount of principal paid by Autopistas in each year until the bonds are fully paid. Therefore, the Authority recorded concession revenue in the total aggregate amount of 29.1 million during the fiscal year ended June 30, 2017, which represents the principal payments on bonds made by Autopistas.

Under certain circumstances, including if minimum toll revenues are not achieved, the Bridge Service Concession Agreement may be terminated, and the Authority is then obligated to assume all of Autopistas' obligations to pay the principal of, and interest on, the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Teodoro Moscoso Bridge. Although Autopistas currently has the ability to terminate the Bridge Service Concession Agreement and have the Authority assume its obligations, the Authority has not received such notice and does not currently expect the Bridge Service Concession Agreement to terminate.

The deferred inflows of resources in the total aggregate amount of approximately $1,138 million as of June 30, 2017 were related to the Toll Roads Concession Agreement.

13. LONG-TERM LIABILITIES

Long-term debt activity for the fiscal year ended June 30, 2017, was as follows:

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

	Balance at June 30, 2016	Issuance/ Accretions	Payments/ Amortization	Balance at June 30, 2017	Due within One Year
Serial bonds					
Resolution 1968-18	$ 424,935,000	$ -	$ (28,545,000)	$ 396,390,000	$ 29,985,000
Resolution 1998-06	1,247,930,000	-	(61,035,000)	1,186,895,000	64,385,000
Total	1,672,865,000	-	(89,580,000)	1,583,285,000	94,370,000
Term bonds					
Resolution 1968-18	393,095,000	-	-	393,095,000	-
Resolution 1998-06	1,842,045,000	-	(3,110,000)	1,838,935,000	3,265,000
Teodoro Moscoso	114,115,000	-	(29,105,000)	85,010,000	7,840,000
Total	2,349,255,000	-	(32,215,000)	2,317,040,000	11,105,000
Variable rate bonds					
Resolution 1998-06	200,000,000	-	-	200,000,000	-
CPI based interest-rate bonds					
Resolution 1998-06	57,965,000	-	-	57,965,000	-
LIBOR based interest-rate bonds					
Resolution 1998-06	700,000	-	-	700,000	-
Capital appreciation bonds					
Resolution 1968-18	25,593,031	1,182,794	-	26,775,825	-
Resolution 1998-06	98,302,846	3,589,779	(25,250,000)	76,642,625	25,250,000
Teodoro Moscoso	33,168,147	2,023,844	-	35,191,991	-
Total	157,064,024	6,796,417	(25,250,000)	138,610,441	25,250,000
Total before bond premium	4,437,849,024	6,796,417	(147,045,000)	4,297,600,441	130,725,000
Add net bond premium	249,493,484	-	(13,890,999)	235,602,485	-
Total bonds outstanding	$4,687,342,508	$ 6,796,417	$ (160,935,999)	$4,533,202,926	$ 130,725,000
Other long-term liabilities					
Accrued legal claims	$ 127,004,456	$ 165,184	$ (22,546,235)	$ 104,623,405	$ 13,216,894
Accrued vacations and sick leave	25,245,060	417,078	(5,567,163)	20,094,975	5,657,163
Voluntary termination incentive plan liability	69,860,124	928,834	(8,322,073)	62,466,885	11,569,124
Net pension liability	497,468,675	53,355,060	-	550,823,735	-
Non-revolving lines of credit	1,733,697,500	-	-	1,733,697,500	1,733,697,500
Total other liabilities	$2,453,275,815	$ 54,866,156	$ (36,435,471)	$2,471,706,500	$1,764,140,681

14. BONDS PAYABLE

The Bond Resolutions authorize the issuance of revenue bonds to obtain funds to pay the construction and related costs of transportation facilities. Bonds outstanding under the Bond Resolutions at June 30, 2017, consisted of:

	2017
RESOLUTION 1968-18	
Serial bonds, maturing through 2034 with interest ranging from 3.30% to 6.50%	$ 396,390,000
Term bonds, maturing through 2039 with interest ranging from 4.00% to 6.00%	393,095,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 4.36% to 4.58%	26,775,825
Total resolution 68-18	816,260,825
RESOLUTION 1998-06	
Serial bonds, maturing through 2037 with interest ranging from 2.25% to 5.75%	1,186,895,000
Term bonds, maturing through 2046 with interest ranging from 2.25% to 5.75%	1,838,935,000
Variable rate bonds	200,000,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 4.47% to 5.08%	76,642,625
LIBOR based interest rate bonds maturing through 2045	700,000
Consumer Price Index based interest rate bonds maturing through 2028	57,965,000
Total resolution 1998-06	3,361,137,625
TEODORO MOSCOSO BONDS	
Term bonds, maturing through 2027 with interest ranging from 5.55% to 5.85%	85,010,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 5.90% to 6.15%	35,191,991
Total Teodoro Moscoso bonds	120,201,991
Total bonds outstanding	4,297,600,441
Add: Net unamortized premium	235,602,485
Net bonds payable	4,533,202,926
Less: Current portion	130,725,000
Long-term portion	$ 4,402,477,926

The bonds are secured by a pledge, to the extent they are actually received from the Commonwealth, of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes, a maximum of $11 million monthly (but not more than $120 million annually) derived from excise taxes over crude oil and its derivatives, $15 per vehicle per year from motor vehicle license fees, the proceeds of any other taxes, fees or charges which the Commonwealth may conditionally allocate to the Authority in the future and which the Authority may pledge, proceeds of any tolls or other charges which the Authority may impose for the use of any of its traffic facilities and certain investment earnings.

The Authority's bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, which require the payment of a rebate to the United States federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2017.

The proceeds of the gasoline tax, the gas oil and diesel oil tax, the crude oil tax and the motor vehicle license fees conditionally allocated to the Authority are taxes and revenues available under the Commonwealth's Constitution for the payment of principal and interest of bonds. Accordingly, if needed, they may be withheld by the Commonwealth. On November 30, 2015, the Governor issued Executive Order 2015-046, which directed the Treasury Department to retain certain gasoline, oil, diesel, and petroleum taxes that had previously been conditionally allocated to the Authority. This authorization to retain revenues conditionally allocated to the Authority was extended under the Moratorium Law, Act No. 5, and their related executive orders, as further discussed in Note 5 to the basic financial statements. These revenues are to be used for other essential services within the Commonwealth. During the fiscal year ended June 30, 2017, the Commonwealth retained taxes in the total aggregate amount of approximately $318 million that would have otherwise been transferred to the Authority as further described in Note 5.

The Bond Resolutions further provide that receipts of pledged revenues must be deposited in certain accounts with the Fiscal Agent for the payment of interest and principal of the bonds outstanding.

Nothing in the Bond Resolutions is to be construed as preventing the Authority from financing any facilities authorized by Act No. 74-1965 that created the Authority through the issuance of bonds or other obligations, which are not secured under the provisions of the Bond Resolutions.

The variable rate bonds bear interest at an annual rate of interest (not to exceed the maximum legal rate) as determined by the remarking agent on and as of the rate determination date. This rate will be, in the judgment of the remarking agent under existing current market conditions, the rate that would result in the sale of the outstanding variable interest bonds at a price equal to the purchase price as defined in the bond offering. The effective rate of these bonds at was 12% as of June 30, 2017.

The Series N LIBOR Bonds bear interest from their date of delivery at a per annum rate for each period equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) a per annum spread equal to 0.53%. In each case the LIBOR based interest rate cannot exceed the maximum rate permitted under Puerto Rico law (currently 12%). The effective rate on these bonds was 1.14% as of June 30, 2017.

Interest on the Consumer Price Index (CPI) Bonds will be payable on the first business day

of each month commencing on July 2, 2007. The CPI Rate, which will be reset monthly, is an interest rate based on changes in the CPI and cannot exceed the maximum rate permitted under the Puerto Rico law (currently 12%). The effective rate on these bonds was 2.75% as of June 30, 2017.

Debt Maturities

The outstanding bonds as of June 30, 2017, require future payments of principal and interest as follows:

Fiscal years ended June 30,	Principal	Interest	Total
2018	$ 130,725,000	$ 207,523,091	$ 338,248,091
2019	135,450,528	199,923,685	335,374,213
2020	141,238,108	193,974,292	335,212,400
2021	150,063,987	187,678,948	337,742,935
2022	157,673,335	180,742,160	338,415,495
2023-2027	864,665,081	786,895,473	1,651,560,554
2028-2032	888,944,402	586,452,306	1,475,396,708
2033-2037	1,083,095,000	336,825,644	1,419,920,644
2038-2042	671,760,000	84,634,488	756,394,488
2043-2046	73,985,000	8,469,625	82,454,625
Total	$ 4,297,600,441	$ 2,773,119,712	$ 7,070,720,153

For variable interest-rate bonds included above, the debt service requirements were computed assuming current interest rates remain the same for their remaining term. As rates vary, variable-rate bond interest payments will vary.

The above schedule has been presented in accordance with original terms of the bonds payable and do not reflect the effects, if any, that may result from the Title III proceedings. The bonds payable are subject to compromise. Accordingly, the effects of the Title III proceedings may affect the carrying amounts, interest rates and the repayment terms.

Debt Refunding

The outstanding balances as of June 30, 2017, of the bonds defeased by the Authority are as follows:

	2017
Series M	$ 10,000
Series AA	149,305,000
Series BB	22,180,000
Series CC	6,520,000
Series Z	22,825,000
Total	$ 200,840,000

Bond defaults

On July 1, 2016, the trustee of the Authority's 1998 Resolution SIB Bonds notified the Authority that it failed to make the principal and interest payment to the trustee and that a default under the trust agreement constitutes an event of default under the 1998 Resolution SIB Bonds Trust Agreement. The total aggregate amount of the debt service principal and interest defaulted was approximately $4.5 million of which approximately $3.4 million was paid the insurance company under the financial guarantee insurance policy.

On January 1, 2017, the trustee of the Authority's 1998 Resolution SIB Bonds notified the Authority that it failed to make the interest payment to the trustee and that a default under the trust agreement constitutes an event of default under the 1998 Resolution SIB Bonds Trust Agreement. The total aggregate amount of the debt service interest defaulted on was approximately $1.1 million. No amounts were paid by the insurance company.

As explained in Note 23 to the basic financial statements, the Authority defaulted in the payment of debt service of certain bonds outstanding subsequent to June 30, 2017.

15. BORROWINGS UNDER LINES OF CREDIT

The Authority has various unsecured lines of credit with the GDB. The lines of credit were due on various dates through January 31, 2016 and therefore were in default as of June 30, 2017, and remain in default as of the date these basic financial statements. The total aggregate amount outstanding under these lines of credit was approximately $1,733.7 million as of June 30, 2017, which amount bears interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin which range from 125 to 275 basis points (6% at June 30, 2017). During the fiscal year ended June 30, 2017, the total aggregate amount of interest expense on these lines of credits was approximately $105.05 million and the total aggregate amount of accrued and unpaid interest on such notes was approximately $431.9 million as of June 30, 2017.

16. RETIREMENT PLAN

The following description refers to the Retirement System's benefits and operations before the approval of Act No. 106-2017, on August 23, 2017. See Note 23.

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth. The Retirement System consists of different benefit structures, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program and a defined contribution hybrid program.

Disclosures about the Defined Benefit Retirement Plans

Defined Benefit Program

Pursuant to Act No. 447 of May 15, 1951, as amended, all regular employees of the Authority hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the Retirement System, under the Defined Benefit Program, as a condition of their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

The Defined Benefit Program provides retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits.

Members who have attained 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. The annuity for which the participant is eligible, is limited to a minimum of $500 per month and a maximum of 75% of the average compensation, as defined.

Participants who have completed 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

The Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary.

Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the Retirement System effective April 1, 1990. These changes consist principally of an increase in the retirement date from 55 to 65, a

decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who have completed 30 years of creditable service.

On September 24, 1999, the Legislature enacted Act No. 305, which amended Act No. 447 to establish a new retirement program. In addition, on April 4, 2013, the Legislature enacted Act No. 3, which amended the provisions of the different benefit structures under the Retirement System, including the Defined Benefit Program.

System 2000 Program

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to create, among other things the System 2000 Program, a new benefit structure, similar to a cash balance plan (defined contribution plan).

All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Defined Benefit Program, received a refund of their contributions, and were rehired on or after January 1, 2000, and became members of the System 2000 Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the Defined Benefit Program had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the Defined Benefit Program plus interest thereon to the System 2000 Program.

Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary to the System 2000 Program. Employee contributions are credited to individual accounts established under the System 2000 Program. Participants have three options to invest their contributions to the system 2000 Program. Investment income is credited to the participant's account semiannually.

Under System 2000 Program, contributions received from participants are pooled and invested by the Retirement System, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program will be paid from the same pool of assets. As a different benefit structure, the System 2000 Program is not a separate plan and the Commonwealth does not guarantee benefits at retirement age.

Corresponding employers' contributions will be used by the Retirement System to reduce the unfunded status of the Defined Benefit Program.

The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined this plan on or after January 1, 2000.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death.

Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries.

Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

On April 4, 2013, the Legislature enacted Act No. 3 which amended the provisions of the different benefit structures under the Retirement System, including the System 2000 Program.

Defined Contribution Hybrid Program

On April 4, 2013, the Legislature enacted Act No. 3, which amended Act No. 447, Act No. 1 and Act No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the Retirement System.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants who as of June 30, 2013, have not reached the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under the Retirement System, including, but not limited to, the following:

- Increased the minimum pension for current retirees from $400 to $500 per month.
- The retirement age for the Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for the active System 2000 Program participants will be gradually increased from age 60 to age 65.
- Eliminated the "merit annuity" available to participants who joined the retirement System prior to April 1, 1990.
- The retirement age for new employees was increased to age 67.
- The employee contribution rate was increased from 8.275% to 10%.
- For the System 2000 Program participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits were modified.

Employee contributions are credited to individual accounts established under the Defined Contribution Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty-five percent (0.25%) is required for the purchase of disability insurance.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death, the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service, a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump sum or purchasing an annuity contract.

For the year ended June 30, 2017, the Authority was required to contribute 15.525% of each participant's gross salary under the different benefit structures. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). For fiscal year 2017, the employer's contribution was increased by one point twenty-five percent (1.25%). See note 23 for changes effective July 1, 2017.

Total employee contributions for the defined benefit pension plan, the defined contribution plan and the defined contribution hybrid program during the year ended June 30, 2017, amounted to approximately $4.8 million. The Authority's contributions (either paid or accrued) during the year ended June 30, 2017, amounted to approximately $20.8 million. These amounts represented 100% of the required contribution for the corresponding year. Total payroll subjected to retirement contributions amounted to approximately $50.2 million for the year ended June 30, 2017. Individual information for each option is not available since the allocation is performed by ERS itself.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At June 30, 2017 the Authority reported a liability of $550.8 million for its proportionate share of the net pension liability.

The June 30, 2017 net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, rolled forward to the measurement date of June 30, 2016. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Authority's proportionate share was 1.4611% which was a decrease of 0.3% from its proportionate shared measured at June 30, 2016.

For the year ended June 30, 2017, the Authority recognized a pension expense of $28.8 million. At June 30, 2017, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 2,980,418
Difference between expected and actual experience	450,342	7,561,941
Changes of assumptions	84,017,612	-
Change in proportion and difference between the employer's contributions and proportionate share of contributions	-	9,714,634
Authority contributions subsequent to measurement date	20,769,666	-
Total	$ 105,237,620	$ 20,256,993

The total aggregate amount of deferred outflows of resources related to pensions

resulting from the Authority's contributions subsequent to measurement date of approximately to $20.8 million at June 30, 2017 will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as adjustment to pension expense as follows:

Year ending June 30,	Amount
2018	$ 13,835,462
2019	13,835,462
2020	14,531,049
2021	14,709,598
2022	7,299,390
Total	$ 64,210,961

Actuarial Assumptions and Methods

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement:

Actuarial cost method	Entry age normal
Asset valuation method	Market value of assets
Inflation rate	2.5%
Salary increases	3% per year. No compensation increases are assumed until July 1, 2021 as a result of Act no 66 and the current general economy.

The mortality tables used in the June 30, 2016 valuation were as follows:

Pre-Retirement Mortality: For general employees not covered by Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year and projected forward using MP-2016 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year and projected forward using MP-2016 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupied only for members covered under Act No. 127.

Post-Retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rated from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2016

on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-Retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study using data as of June 30, 2003, 2005 and 2007.

The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation of the portfolio that was adopted by ERSs Board of Trustees during December 2013 and the actuary's capital market assumptions as of June 30, 2016. In addition, the assumption reflects that loans to members comprise approximately 50% of the portfolio and, have an approximate return of 9.1% with no volatility. The long-term expected rate of return on pension benefits investments of 6.55% at June 30, 2016 is equal to the highest debt service of the senior pension funding bonds payable which range from 5.85% to 6.55% per annum.

ERS's policy in regards to allocation of invested assets is established and may be amended by ERSs Board of Trustees. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on ERSs financial condition for the benefits provided through the pension programs.

The following was the ERS's Board asset allocation policy adopted by ERS's Board of Trustees as of June 30, 2016:

	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class:		
Domestic equity	25 %	6.4 %
International equity	10 %	6.7 %
Fixed income	64 %	6.3 %
Cash	1 %	3.0 %

The long-term rates of return on pension plan investments were determined using a building block method in which best-estimates ranges of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation.

The asset basis for the date of depletion is the ERSs fiduciary net position (gross assets plus deferred outflows of resources less gross liabilities, including senior pension funding bonds payable, less deferred outflows of resources). On this basis, ERS's net position became negative in fiscal year 2015 and accordingly no projection of date of depletion is needed.

The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition does not improve in the near term.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Therefore, actuarial determined amounts are subject to change in the near term.

Discount Rate

ERSs net position was not projected to be available to make all projected future benefit payments on current and active and inactive employees. Therefore, the tax-free municipal bond index (Bond Buyer Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine total pension liability. The discount rate was 2.9% at June 30, 2016.

Sensitivity of the Authority's proportionate share of net pension liability to change in the discount rate

The following table presents the Authority's proportionate share of the net pension liability calculated using the using the current discount rate of 3% as well what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease	At Current Discount Rate	1% Increase
	2.0 %	3.0 %	4.0 %
Net pension liability	$ 636,009,659	$550,823,735	$ 488,163,993

Payable to ERS's

At June 30, 2017 the Authority reported a payable of approximately $12.7 million for the outstanding amount of contributions to the ERS for current and prior years.

Pension plan fiduciary net position

Additional information on ERS is provided in its standalone financial statements for the fiscal year ended June 30, 2016, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

17. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Authority agreed to provide medical, pharmacy, dental and vision medical insurance coverage to eligible retirees, its spouses and dependents, for a period of two years after retirement as a single employer defined benefit as Other Post-Employment Benefits Plan (the "Plan").

The OPEB can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The OPEB Plan does not issue a stand-alone financial report because there are no assets legally segregated for the sole purpose of paying benefits under the OPEB plan.

Funding Policy

The obligations of the Plan members' employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

The Authority currently contributes enough money to the OPEB Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the OPEB Plan are paid by the Authority.

Annual OPEB Cost and Net OPEB (Asset) Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contributions of the employer (ARC). The Authority has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45 for employers in the OPEB Plan with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year ended June 30, 2017, the amount actually contributed to the plan, and the Authority's net OPEB (asset) obligation to the Plan:

	2017
Annual required contribution (ARC)	$ 367,782
Adjustment to annual required contribution	28,314
Annual OPEB cost (AOC)	396,096
Contributions made	81,259
Decrease in net OPEB asset	314,837
Net OPEB asset at beginning of year	(888,902)
Net OPEB asset at end of year	$ (574,065)

The Authority's annual OPEB cost, percentage of annual OPEB cost contribution to the plan, and net OPEB (asset) obligation for the three fiscal years ended June 30, 2017, were as follows:

Year Ended June 30,	OPEB Cost	OPEB Cost Contributed	(Asset)/ Obligation
2017	$ 396,096	20.51 %	$ (574,065)
2016	361,447	19.70 %	(888,902)
2015	348,804	6.16 %	(1,179,136)

As of June 30, 2017, the actuarial accrued liability for benefits was $3,637,000, which were unfunded. The covered payroll (annual payroll of active employees covered by the plan) were approximately $48.2 million during the year ended June 30, 2017, and the ratio of the unfunded actuarial accrued liability to the covered payroll was approximately 7.6% as of June 30, 2017.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to the point.

The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The valuation date was July 1, 2016 and the *Projected Unit Credit Cost Method* was used. The actuarial assumptions were based on a set of assumptions modified to the Authority.

Turnover rates were taken from a standard actuary table, T-5. This table was chosen so as to match the Authority's historical turnover experience. Retirement rates were also based on recent Authority's experience, but are less reliable due to the size of the current retiree group and the relative newness of the program.

A discount rate of 3.25% was used. This rate is the best actuarial estimate of expected long-term experience and is in accordance with guidelines for selection of these rates under GASB 45. The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

18. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 of 2010 (Act No. 70) also established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. In this early retirement benefit program, the Authority will pay the corresponding pension obligation until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. ERS will be responsible for benefit payments afterwards.

As of June 30, 2017, the Authority's total outstanding liability under this program was approximately $38.4 million and was discounted at 1.17% for early retirement benefits that will be provided to eligible employees that have completed between 15 years to 29 years of credited service in ERS and 0.56% for employee and the employer contributions to ERS to eligible employees that have 30 years of credited service in ERS and the age for retirement or have the age for retirement.

On December 28, 2015, the Commonwealth enacted Act. No. 211 of 2015 (Act No. 211), known as the Voluntary Early Retirement Law. Act No. 211 allows eligible active employees under ERS's Act No. 447 plan to participate in a voluntarily retirement program if they were hired before April 1990 and provided a minimum of twenty years (20) of service. The voluntary program, which was adopted during the fiscal year ended June 30, 2017, provides eligible participants with 60% of their average compensation determined as of December 31, 2015 plus the payment by the Authority of the employee and the employer contributions to ERS until the employee attain age sixty-one (61).

The financial impact resulting for the benefits granted to participants on this new program was the recognition of an expense and liability of $24.1 million in the Authority's basic financial statements for the fiscal year ended June 30, 2017. The liability under this program was discounted at 2.25%.

As described in Note 23, Act No. 106 repealed Act No. 211, while creating an incentives, opportunities and retraining program for public workers.

19. RELATED PARTY TRANSACTIONS

Operating expenses during the fiscal year ended June 30, 2017, included approximately $9.1 million of charges from Puerto Rico Electric Power Authority (PREPA), a component unit of the Commonwealth. In addition, during the year ended June 30, 2017, the Authority received charges from the Public Building Authority (PBA), a component unit of the Commonwealth of Puerto Rico, for rental of buildings amounting to approximately $791,000.

As of June 30, 2017, the Authority had approximately $42.6 million of receivables from the Commonwealth and its component units, which were reported in accounts receivable in the accompanying statement of net position. The individual receivables which comes substantially from previous fiscal years is overdue and has been fully reserved at June 30, 2017.

In addition, restricted assets include $12.7 million due by the Commonwealth for petroleum and other taxes conditionally allocated to the Authority. This amount was collected subsequent to June 30, 2017.

Over the years, GDB, as fiscal agent and bank of the Commonwealth, had extended lines of credit to the Authority in order to finance capital improvement projects and operational deficits. As of June 30, 2017, the Authority has an outstanding balance of approximately $1,733.7 million under these lines of credit as explained in Note 15 to the basic financial statements. The total aggregate interest expense on these lines of credits recorded during the fiscal year ended June 30, 2017, was approximately $105 million. The total aggregate accrued interest on these lines of credit during the fiscal year ended June 30, 2017, was approximately $431.9 million.

Bonds payable included $200 million variable rate bonds, purchased by GDB from a third-party on May 19, 2014.

As of June 30, 2017, the Authority had amounts due to other governmental entities for operating leases, utilities, interest on line of credits and other agreements of approximately $619.4 million which are included in accounts payable and accrued liabilities in the accompanying statement of net position.

20. COMMITMENTS AND CONTINGENT LIABILITIES

Construction

As of June 30, 2017, the Authority had commitments of approximately $151.3 million related to construction contracts.

Leases

The Authority has various operating leases for office space with the Puerto Rico Public Buildings Authority, which is a related party. These leases expired in fiscal years 2003 and 2004. The contracts have not been renewed and the Authority continues to use the premises on a month to month basis. The total aggregate amount of rental expense recorded by the Authority on these contacts was approximately $791,000 during the fiscal year ended June 30, 2017.

Litigation

The Authority is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects.

As of June 30, 2017, the Authority, based on legal advice, has recorded a liability of approximately $105 million for probable losses on those claims not fully covered by insurance. Outstanding legal liability is composed of $13.2 million of legal cases related to construction projects and $91.4 million related to expropriation and related costs. In the opinion of legal counsel, any liability in excess of the recorded liability that may arise from such claims would not be significant to the Authority's financial position or results of operations.

Civil Actions Filed by Several Bondholder Groups and Other Creditors Against the Authority Prior to the Commencement of its Title III Case

Several groups of bondholders, monoline insurers, and indenture trustees have filed claims contesting the constitutionality of the Moratorium Act. However, these lawsuits were stayed from June 30, 2016 through May 1, 2017 under the Title IV stay and re-stayed upon commencement of the Authority's Title III case.

- **Assured Guar. Corp. v. Garcia Padilla, Case No. 16-1037-FAB (D.P.R. Jan. 7, 2016)**

On January 7, 2016, a group of monoline insurers of bonds issued by the Authority, the Puerto Rico Convention Center District Authority (PRCCDA), and the Puerto Rico Infrastructure Financing Authority (PRIFA) filed a complaint seeking (i) a declaration that Executive Orders 2015-46 and 2015-49—which prioritized the payment of general expenditures over the payment of public debt subject to pledged revenues—violated the Contract Clause, Takings Clause, and Due Process Clause of the U.S. Constitution and Commonwealth Constitution and are invalid, null, and void, and (ii) an injunction prohibiting defendants from taking or causing to be taken any action pursuant to the executive orders.

- **Fin. Guar. Ins. Co. v. Garcia-Padilla, Case No. 16-1095-FAB (D.P.R. Jan. 19, 2016)**

On January 19, 2016, a monoline insurer for bonds issued by the Authority, PRCCDA, and PRIFA filed a complaint (similar to that of Case No. 16-1037 discussed in the prior paragraph), seeking declaratory and injunctive relief stating that the U.S. Constitution preempts Section 8 of Article VI of the Commonwealth Constitution, the OMB Act, and Executive Orders 2015-46 and 2015-49.

On May 16, 2017, the Puerto Rico Department of Justice filed a notice of stay under Title III of PROMESA, which the court granted on May 17, 2017. On August 9, 2018, Judge Besosa entered an order administratively closing the case.

- **Ambac Assurance Corp. v. Puerto Rico Highways and Trans. Auth., Case No. 16-1893-FAB (D.P.R. May 10, 2016)**

Ambac, a monoline insurer of Authority bonds, filed a complaint alleging breach of contract and breach of fiduciary duty based on the Authority's mismanagement and lack of transparency. The complaint seeks, among other things, (i) a preliminary injunction enjoining the EDB from transferring the proceeds of toll revenues to any entity other than the Authority, (ii) expedited discovery of the Authority's financial condition, and (iii) an appointment of a provisional receiver over the Authority. On May 23, 2017, the Oversight Board filed a notice of stay under Title III of PROMESA, which the court granted on May 24, 2017.

- **Peaje Investments LLC v. Garcia-Padilla, et al., Case No. 16-cv-2365 (D.P.R.)**

Plaintiff Peaje Investments LLC (Peaje) brought a complaint against the Governor and other Commonwealth officials asserting that the Moratorium Act and related executive orders are unlawful under PROMESA, the United States Constitution, and the Puerto Rico Constitution.

The complaint asserted claims against the Authority and claimed that the Governor, acting through the Moratorium Act and certain executive orders, had directed the Authority to retain or otherwise divert certain "pledged revenues" to the payment of other expenses, thereby avoiding and dissipating the bondholders' liens with respect to such revenues. Peaje alleged that this diversion of toll revenues violated PROMESA's prohibition during the interim stay period of transfers of property, subject to a valid pledge or security interest. On July 18, 2016, Peaje filed a motion for relief from stay, which defendants opposed on August 4, 2016. On November 2, 2016, the District Court denied Peaje's motion.

Peaje appealed the District Court's November 2, 2016 order denying its motion for relief from stay. The appeal was consolidated with Peaje (Case No. 16-2430 (FOMB)), Assured (Case No. 16-2431 (FOMB)), and Altair (Case Nos. 16-2433 (Altair) and 16-2435 (FOMB)). On January 11, 2017, the First Circuit Court of Appeals affirmed the District Court's decision. On January 18, 2017, the District Court dismissed this case without prejudice. This matter is now concluded.

- **Assured Guaranty Corporation, et al. v. Commonwealth of Puerto Rico, et al., Case No. 16-cv-2384 (D.P.R.)**

A group of bondholders brought a complaint against the Commonwealth and several Commonwealth officers, including the Governor, asserting that the Moratorium Act and related executive orders, which provide that the Authority may use toll revenues to pay expenses of operations and fund essential services on behalf of the Commonwealth, were unconstitutional. On July 21, 2016, the plaintiffs filed a motion for relief from the stay, which defendants opposed on August 17, 2016. On November 2, 2016, the District Court denied the plaintiffs' motion.

The Plaintiffs appealed the District Court's November 2, 2016 order denying their motion for relief from stay. The appeal was consolidated with Peaje (Case No. 16-2365), Assured (Case No. 16-2384), and Altair (Case Nos. 16-2433 and 16-2435). On January 11, 2017, the First Circuit Court of Appeals affirmed the District Court's decision. On January 18, 2017, the District Court dismissed this case without prejudice. This matter is now concluded.

- **Scotiabank de Puerto Rico, et al. v. Garcia-Padilla, et al., Case No. 16-cv-2736 (D.P.R.)**

A group of bondholders brought a complaint against a number of Commonwealth officials, including the Governor, asserting that the Moratorium Act and related executive orders violated PROMESA, the United States Constitution, and the Puerto Rico Constitution. The complaint asserts claims against the Hon. Miguel A. Torres Diaz in his official capacity as Secretary of the Authority.

On September 10, 2017, the plaintiffs filed their amended complaint. On November 11, 2016, the defendants filed a motion to stay the proceedings. On December 16, 2016, the defendants filed a motion to dismiss. On January 31, 2017, the plaintiffs filed an opposition to defendants' motion. That motion is pending.

On May 16, 2017, the Puerto Rico Department of Justice filed a notice of stay under Title III of PROMESA. On May 17, 2017, the District Court entered an order confirming the stay. There has been no further docket activity.

- **Ambac Assurance Corp. v. Commonwealth of Puerto Rico, Case No. 17-1568 (D.P.R. May 2, 2017)**

Ambac filed an action requesting the court to invalidate all moratorium legislation and related executive orders in effect since the end of 2015. Through the moratorium legislation and related executive orders, Ambac alleges that the Commonwealth withholds certain revenue sources—highway tolls, license fees and taxes on tobacco products, gasoline, and hotel rooms, among others—that are used for the payment of the debt incurred by the Authority, PRIFA, and PRCCDA.

Ambac claims that the related executive orders are also unconstitutional and contrary to PROMESA. Ambac intends to prevent the Commonwealth from using these funds for any uses other than debt service. On May 15, 2017, the FOMB filed a notice of stay under Title III of PROMESA, which the court granted on May 17, 2017.

- **Peaje Investments LLC v. Puerto Rico Highways & Transportation Authority, Case No. 17-cv-01612 (D.P.R. May 9, 2017)**

On May 9, 2017, Peaje filed a complaint for declaratory judgment and injunctive relief challenging the Authority's use of toll revenues. On May 22, 2017, the Oversight Board filed a notice of stay under Title III of PROMESA, which the court granted on May 23, 2017. There has been no further docket activity.

Key Civil Actions Filed by Several Bondholder Groups and Other Creditors Against the Authority After the Commencement of its Title III Case

- **Peaje Investments LLC v. Puerto Rico Highways & Transportation Authority, et al., Adv. Proc. Nos. 17-151-LTS, 17-152-LTS (D.P.R. May 31, 2017)**

On May 31, 2017, Peaje filed a lawsuit against the Authority, the Authority's Executive Director in his official capacity, the Commonwealth, the Governor, the Secretary of the Treasury Department, the Director of the Office of Management and Budget, FAFAA, and FAFAA's Executive Director in his official capacity.

Plaintiff alleges that (i) it owns bonds secured by liens on pledged special revenues; (ii) the Commonwealth and the Authority unlawfully evaded payment on those bonds by diverting pledged special revenues to unauthorized uses; and (iii) defendants unlawfully paid Authority bonds almost exclusively out of reserve account funds and that those funds are the bondholders' property. Plaintiff further alleges that it is entitled to certain of the Authority's toll revenues in payment of its bonds, asserting both statutory and consensual liens. Through this lawsuit, plaintiff seeks to stop the Commonwealth, FAFAA, and their respective officials from interfering with (1) the obligation of the Authority and its Executive Director to deposit the toll revenues with the Fiscal Agent; (2) the execution of any judgment directing the Authority and its Executive Director to resume depositing toll revenues; and (3) the execution of any judgment directing the Authority and its Executive Director to deposit sufficient funds with the Fiscal Agent in advance of the semi-annual debt service payment dates. Plaintiff seeks only declaratory and injunctive relief.

On September 8, 2017, the District Court denied plaintiff's motion for preliminary injunction. On October 10, 2017, Peaje filed an amended complaint, which defendants answered on November 17, 2017.

On August 8, 2018, the First Circuit Court of Appeals issued an opinion affirming the District Court's order denying Peaje's motion for preliminary injunction and adequate protection, finding Peaje does not hold a statutory lien. On October 26, 2018, plaintiff filed a petition seeking a writ of certiorari, which is currently pending before the U.S. Supreme Court.

On November 14, 2018, the parties filed a joint status report with the District Court. In the status report, the parties requested entry of an order directing them to report back to the court within 90 days to inform the court of the status of the pendency of plaintiff's writ of certiorari and the related appeals of Assured Guaranty Corporation, et al. (Case Nos. 18-1165, 18-1166), and Ambac Assurance Corporation (Case No. 18-1214). On November 15, 2018, the District Court entered an order granting the parties' request, setting a deadline of February 14, 2019 for the parties to submit another joint status report.

- ***Assured Guaranty Corp., et al. v. Commonwealth of Puerto Rico, et al.*, Adv. Proc. Nos. 17-155-LTS, 17-156-LTS (D.P.R. Jun. 3, 2017)**

On June 4, 2017, plaintiffs filed a lawsuit against the Commonwealth, the Oversight Board, FAFAA, the Authority, the Governor, FAFAA's Executive Director in his official capacity, the Authority's Executive Director in his official capacity, the Director of the Commonwealth's Office of Management and Budget, the Secretary of the Treasury Department, and the Oversight Board's Executive Director in her official capacity.

The plaintiffs allege that they are entitled to the Authority's toll revenues, fuel excise taxes, and motor vehicle license fees in payment of their bonds, alleging both statutory and consensual liens. Plaintiffs sought various forms of declaratory relief, including that: (i) the revenues backing the Authority's bonds are pledged special revenues under the U.S. Bankruptcy Code, and (ii) all funds held in the reserve accounts are the Authority bondholders' property. The complaint sues FAFAA and FAFAA's Executive Director in his official capacity because the FAFAA Executive Director is empowered to implement the fiscal plans that plaintiffs are challenging. Plaintiffs seek only declaratory and injunctive relief.

On November 21, 2017, the District Court heard argument on defendants' dismissal motion. On January 30, 2018, the District Court granted the motion to dismiss and closed the case. On February 9, 2018, plaintiff filed an appeal to the First Circuit. On November 5, 2018, the First Circuit heard oral argument and reserved decision. As of the date hereof, the First Circuit has not entered a decision.

- ***Ambac Assurance Corporation v. Commonwealth of Puerto Rico, et al.*, Adv. Proc. No. 17-159-LTS (D.P.R. Jun. 8, 2017)**

On June 8, 2017, Ambac Assurance Corporation (Ambac) filed a lawsuit against the Commonwealth, the Oversight Board, FAFAA, the Authority, the Governor, the Secretary of the Treasury Department, the Director of the Office of Management and Budget, FAFAA's Executive Director in his official capacity, and each individual member of the Oversight Board. Ambac alleged that certain moratorium legislation and orders are unconstitutional and unlawful.

The complaint sued FAFAA for its participation in the development and submission of the fiscal plan and the Fiscal Plan Compliance Act. The complaint also asserted claims against FAFAA's Executive Director in his official capacity, stating that the FAFAA Executive Director (1) oversaw and directed the development and submission of the fiscal plan, (2) was delegated certain powers relating to the implementation of the Fiscal Plan Compliance Act, and (3) was empowered to take certain actions with respect to executing the fiscal plan and Fiscal Plan Compliance Act. Ambac sought only declaratory and injunctive relief.

On February 27, 2018, the District Court granted the defendants' motion to dismiss the amended complaint. On March 19, 2018, plaintiff appealed this decision to the First Circuit. On December 5, 2018, the First Circuit heard oral argument and reserved decision. As of the date hereof, the First Circuit has not entered a decision.

- ***Coopertiva de Ahorro y Credito Abraham Rosa, et al. v. Commonwealth of Puerto Rico, et al.*, Adv. Pro. No. 18-00028-LTS (D.P.R. Mar. 22, 2018)**

On March 22, 2018, several Credit Cooperatives chartered under Commonwealth law filed an adversary complaint against the Commonwealth, COFINA, the Oversight Board, FAFAA, GDB, the Authority, ERS, and PREPA, seeking a declaratory judgment that their Puerto Rico debt holdings are not dischargeable and monetary damages for alleged fraud in issuing and encouraging the Cooperatives to purchase Puerto Rico debt instruments.

On March 26, 2018, Judge Swain referred the case to Magistrate Judge Dein for general pre-trial management. On October 1, 2018, the defendants filed a motion to dismiss. Plaintiffs must object to the motion to dismiss by January 22, 2019, and replies in support are due March 21, 2019.

- ***Siemens Transportation Partnership Puerto Rico, S.E. v. Puerto Rico Highways and Transportation Authority*, Adv. Pro. No. 18-00030-LTS (D.P.R. Mar. 26, 2018)**

On March 26, 2018, Siemens Transportation Partnership Puerto Rico, S.E. (Siemens) filed a complaint against the Authority, the Oversight Board, FAFAA, and GDB.

Siemens alleges that the Authority failed to pay Siemens for work done on the Tren Urbano construction project. Siemens seeks declaratory and injunctive relief (a) determining and declaring that a final installment of $13 million—to be paid from an escrow account upon the conclusion of all work contemplated by a settlement agreement between Siemens, PRHTA, and other contractors—has become due and payable to Siemens; (b) determining and declaring that the funds held in the escrow account are Siemens' property; (c) enjoining defendants from using the escrowed funds for any purpose other than releasing the funds to Siemens; and (d) determining and declaring that the escrowed funds are to be released to Siemens. On March 28, 2018, Judge Swain referred the case to Magistrate Judge Dein for general pre-trial management.

On July 25, 2018, Judge Dein ordered this adversary proceeding be disposed of in connection with GDB's qualifying modification under Title VI of PROMESA. A settlement was reached between Siemens and GDB, and the District Court granted an order dismissing the case with prejudice on November 30, 2018.

Federal Assistance Programs

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, or to compliance audits by grantor agencies.

On March 31, 2014, FHWA approved $756.4 million in toll credits that may be applied toward the non-federal matching share of transit projects. These toll credits will remain available until used. Since inception, only $92.2 million in toll credits have been claimed, and there was an outstanding balance of $664.1 million for future federally aided projects as of June 30, 2017.

21. OPERATION AND MAINTENANCE OF URBAN TRAIN AND OTHER TRANSPORTATION SYSTEMS

During 2005, the Authority entered into a System and Test Track Turnkey Contract (STTT Contract) with Siemens Transportation Partnership Puerto Rico, S.E., Juan R. Requena y Asociados, and Alternate Concepts, Inc. (collectively, Siemens) for the purpose of operating and maintaining the Urban Train.

The STTT Contract expired on June 30, 2017 after various term extensions were executed between both parties. The total annual operation and maintenance cost, including cost of insurance and electricity, for the fiscal year ended June 30, 2017, was approximately $57.6 million including approximately $49 million paid under the STTT Contract.

Effective on July 1, 2017, the Authority entered into a new contract with ACI-Herzog for the purpose of operating and maintaining the Urban Train. This contract expires on June 30, 2032, with an option to extend the term for an additional two periods of not less than 5 years. In no event shall the term exceed 25 years. The compensation is based on a schedule included in the master agreement, which estimates an average of $47.3 million for the fiscal year ended June 30, 2018.

The Authority contracted First Transit of Puerto Rico, Inc. (First Transit) to operate the service known as Metrobus I, which consists of two express routes—Metrobus Route I and Metrobus Expreso—that provide service between the University of Puerto Rico and Old San Juan. The service is provided seven days a week using 24 buses owned by First Transit. The existing service agreement with First Transit expired on June 30, 2015 and was extended to June 30, 2018. The total aggregate expense amount under this contract was $13.95 million for the fiscal year ended June 30, 2017.

22. OTHER INCOME

Other income for the year ended June 30, 2017, consisted of:

		2017
Electronic toll label sales and fines fees	$	22,071,200
Teodoro Moscoso revenues		1,851,218
Rental income		1,092,764
Impact fee		1,111,213
Metrobus fare fees		638,756
Others		2,072,938
Total	$	28,838,089

23. SUBSEQUENT EVENTS

Subsequent events were evaluated through December 14, 2018, the date the basic financial statements were available to be issued, to determine if such events should be recognized or disclosed in the Authority's fiscal year 2017 basic financial statements.

On July 3, 2017, the trustee notified the Authority that it failed to make a payment on principal and interest due on July 1, 2017 under the 1968 and 1998 Bond Resolutions in the total aggregate amount of approximately $107.2 million and $116.9 million, respectively. Of the total amount defaulted on, approximately $76.5 million and $66.7 of principal and interest, respectively, was paid by the insurance company under the Authority’s financial guarantee insurance policy.

From August 1, 2017 through December 3, 2018, the Authority defaulted on the monthly interest payments corresponding to the Puerto Rico Highways and Transportation Authority Transportation Revenue Bonds (Series A) Variable. The total aggregate amount of Series A interest expense defaulted on during this period was approximately $33.9 million. No insurance payments were made by insurance companies for that period.

From August 1, 2017 through December 3, 2018, the Authority also defaulted on the monthly interest payments corresponding to the Puerto Rico Highways and Transportation Authority (Series N) Consumer Price Index Fund Bonds. The total aggregate amount of Series N interest expense defaulted on during this period was approximately $2.8 million. The insurance company paid the full interest debt service defaulted.

On January 2, 2018, the trustee of the Authority notified the Authority that it failed to make the semi-annual payment on interest amounting to approximately $96.5 million. Of the total amount defaulted by the Authority, approximately $60 million in interest was paid by the insurance company under the financial guarantee insurance policy.

On July 2, 2018, the trustee notified the Authority that it failed to make a payment on principal and interest due on July 1, 2018 under the 1968 and 1998 Bond Resolutions in the total aggregate amount of approximately $111.9 million and $114.9 million, respectively. Of the total amount defaulted on, approximately $96.1 million and $76.1 of principal and interest, respectively, was paid by the insurance company under the Authority's financial guarantee insurance policy.

PayGo Pension Reform

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations, and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (PayGo) mechanism for the Commonwealth Retirement Systems. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the additional uniform contribution were all eliminated. ERS will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality, including the Authority.

In addition to the establishment of the PayGo mechanism, on August 23, 2017, the Governor signed into law the Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act No. 106), which reformed the Commonwealth Retirement Systems so that their active participants would deposit their individual contributions in a new Defined Contributions Plan, that will be managed by a private entity. Act No. 106 created the legal framework so that the Commonwealth can make payments to pensioners through the PayGo system. Approximately $2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act No. 106 also created a Defined Contributions Plan, similar to a 401(k) plan, which mandates the contributions of public servants, because future benefits will not be paid by the Commonwealth Retirement Systems.

Act No. 106, among other things, amended Act No. 12 with respect to the ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act No. 106, the ERS's Board of Trustees was substituted with a new retirement board (the Retirement Board), which is currently responsible for governing all Commonwealth Retirement Systems.

Act No. 106 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the prior program will be transferred to the members account in the new defined contributions program. ERS's active members in the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Act No. 106 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the Commonwealth Retirement Systems. At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The employees of ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act 8 of February 8, 2017.

In addition, Act No. 106 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating an incentives, opportunities, and retraining program for public workers.

Impact of Hurricane Irma and Maria

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico, bringing sustained winds of 155 miles per hour and significant rainfall over a 30-hour period. Hurricane Maria crossed Puerto Rico diagonally, entering through the Southeast and exiting through the Northwestern region. The hurricane caused catastrophic destruction in Puerto Rico, including severe damage to the electric power system, and left the island completely without power. Only two weeks prior to Hurricane Maria, Hurricane Irma—one of the strongest hurricanes ever recorded in the Atlantic—passed by Puerto Rico's north coast, substantially impairing an already weak infrastructure.

The hurricanes severely damaged or destroyed buildings, roads and bridges owned by the Authority and affected the operations of the Urban Train. Management has initially determined that replacing or repairing the property damaged by hurricanes will have a replacement cost of approximately $500 million. This amount will be financed with U.S. Federal grants of approximately $480 million and with Authority's funds of approximately $20 million. The most significant damages are to the roads and bridges and these damages are not covered by insurance. Management continues to evaluate the Authority's property and as a result additional of replacement or repair costs may arise.

GDB Qualifying Modification under Title VI of PROMESA

As described in Note 5 above, on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. Under the Qualifying Modification, holders of certain bond and deposit claims exchanged their claims for bonds issued by a newly created public instrumentality, the GDB Debt Recovery Authority, and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. As a result of the Qualifying Modification, loans in the total aggregate amount of approximately $1.9 billion owed by HTA to GDB were transferred to the GDB Debt Recovery Authority.

In addition, pursuant to the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. As a result of the foregoing adjustment, all of the Authority's deposits at GDB were extinguished as a result of the Qualifying Modification. Due to the closing of the Qualifying Modification and the wind-down of GDB, the Authority will also no longer be able to rely on GDB for future liquidity.

REQUIRED SUPPLEMENTARY INFORMATION

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN (OPEB)
FOR FISCAL YEAR ENDED JUNE 30, 2017

(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (URAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (C)	URAL Percentage of Covered Payroll [(b)-(a)/(C)]
July 1, 2016	$ -	$ 3,637	$ 3,637	0.0 %	$ 48,164	7.6 %
July 1, 2014	-	2,745	2,745	0.0 %	52,106	5.3 %
July 1, 2012	-	2,735	2,735	0.0 %	94,172	2.9 %

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF STATUTORILY REQUIRED EMPLOYER CONTRIBUTIONS PENSION PLAN
FOR FISCAL YEAR ENDED JUNE 30, 2017

(In thousands)

Fiscal Year Ended June 30,	(a) Statutorily Required Contribution	(b) Contributions in Relation to Statutorily Required Contributions	(a-b) Contribution Deficiency (Excess)	(c) Authority's Covered Payroll	(b/c) Contributions as a Percent of Covered Payroll
2017	$ 20,770	$ 20,770	$ -	$ 50,291	41.37 %

Fiscal year 2017 was the first year that the new requirements of GASB Statement No. 68 were implemented at the Authority. This schedule is required to illustrate 10-years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PROPORTIONATE SHARE OF THE COLLECTIVE NET PENSION LIABILITY
FOR FISCAL YEAR ENDED JUNE 30, 2017

Fiscal Year Ended June 30,	(a) Authority's Proportion of the Net Pension Liability	(b) Authority's Proportionate Share of the Net Pension Liability	(c) Authority's Covered Payroll	(b/c) Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position (Deficit) as a Percentage of Total Pension Liability
2017	1.47091 %	$ 55,082	$ 50,291	1.095 %	(3.47)%

Fiscal year 2017 was the first year that the new requirements of GASB 68 were implemented at the Authority. This schedule is required to illustrate 10-years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

SUPPLEMENTARY INFORMATION

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR FISCAL YEAR ENDED JUNE 30, 2017

CFDA No.	Federal grantor/pass through grantor/ program or cluster title	Pass-Through Entity Identifying Number	Total Federal Expenditures	Provided to Sub-recipients
	Department of Transportation:			
	Federal Transit Cluster			
20.507	Federal Transit Formula Grants		$ 20,628,612	$ 2,051,236
	Transit Services Programs Cluster			
20.513	Enhanced Mobility for Seniors and Individuals with Disabilities		3,041,743	2,593,877
20.516	Job Access and Reverse Commute Program		3,980,151	3,920,091
20.521	New Freedom Program		6,430	-
	Total Transit Services Programs Cluster		7,028,324	6,513,968
	Highway Planning and Construction Cluster			
20.205	Highway Planning and Construction		90,869,484	-
	Other Programs:			
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research		743,725	37,079
20.509	Formula Grants for Rural Areas		2,400,196	1,547,538
	Total Other Programs		3,143,921	1,584,617
	Pass-through from Puerto Rico Traffic Safety Commission:			
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	17-11-13	1,933,183	-
	Total Expenditures of Federal Awards		$123,603,524	$ 10,149,821

See notes to Schedule of Expenditures of Federal Awards.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR FISCAL YEAR ENDED JUNE 30, 2017

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Puerto Rico Highways and Transportation Authority (the "Authority") and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, and cash flows of the Authority. Therefore, some accounts in this schedule may differ from amounts presented in, or used in the preparation of the Authority's financial statements.

The Schedule includes federally funded projects received directly from federal agencies and the related amount of pass-through awards provided by the Authority to Sub-recipients.

2. RELATIONSHIP TO THE FINANCIAL STATEMENTS

Expenditures of federal awards are reported in the Authority's financial statements as construction in progress in the statement of net position and as expenses in the statement of revenues, expenses and changes in net position.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF REVENUES AND EXPENSES BY SEGMENT (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017

	Toll Roads	Integrated Transportation	Other	Total
Operating revenues:				
Toll fares	$ 133,277,922	$ -	$ -	$ 133,277,922
Train fares	-	9,924,066	-	9,924,066
Other income	24,056,517	1,199,244	3,582,328	28,838,089
Concession agreement	54,600,854	-	-	54,600,854
Total operating revenues	211,935,293	11,123,310	3,582,328	226,640,931
Operating expenses:				
Salaries and related benefits	8,387,938	1,137,196	38,325,009	47,850,143
Post-employment benefits	1,553,768	119,597	23,342,495	25,015,860
Toll highways administration and maintenance	24,618,162	-	1,728,934	26,347,096
Train operating and maintenance costs	-	50,574,186	-	50,574,186
Integrated transportation system	-	14,568,681	-	14,568,681
Repairs and maintenance of roads and bridges	35,891,071	-	-	35,891,071
Utilities	902,833	6,459,500	1,925,901	9,288,234
Other	8,140,470	9,392,850	13,776,180	31,309,500
Total operating expenses	79,494,242	82,252,010	79,098,519	240,844,771
Operating income (loss) before depreciation and amortization	132,441,051	(71,128,700)	(75,516,191)	(14,203,840)
Depreciation and amortization	117,778,796	135,898,611	199,317,962	452,995,369
Operating income (loss)	14,662,255	(207,027,311)	(274,834,153)	(467,199,209)
Non-operating revenues (expenses):				
Operating transfers from the Commonwealth of Puerto Rico	-	-	110,767,601	110,767,601
Cigarette taxes	-	-	5,185,707	5,185,707
Vehicle license fee	-	-	24,385,697	24,385,697
Other expenses	-	-	(26,384)	(26,384)
Operating grants	-	31,104,398	1,933,183	33,037,581
Interest on bonds and lines of credit	(87,690,136)	(101,180,927)	(148,398,692)	(337,269,755)
Principal debt service paid by insurance company	-	-	3,110,000	3,110,000
Interest debt service paid by insurance company	-	-	245,125	245,125
Investment income	-	-	24,899,608	24,899,608
Net change in fair value of investments	-	-	(880,282)	(880,282)
Custodial credit risk loss on deposits with government bank	-	-	(51,498)	(51,498)
Total non-operating revenues (expenses), net	(87,690,136)	(70,076,529)	21,170,065	(136,596,600)
Loss before capital contributions	(73,027,881)	(277,103,840)	(253,664,088)	(603,795,809)
Capital grants	93,101,796	-	-	93,101,796
Change in net position	$ 20,073,915	$ (277,103,840)	$ (253,664,088)	$ (510,694,013)

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico):

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Puerto Rico Highways and Transportation Authority (a Component Unit of the Commonwealth of the Puerto Rico) (the "Authority"), which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2018. We also included an emphasis-of-matter paragraphs in our report on the financial statements because of the uncertainty of the Authority's ability to continue as a going concern, and for the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions - an Amendment to GASB Statement No 27* and GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No 68.*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2017-001, 2017-002, and 2017-004 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

BDO

To the Board of Directors of
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico)
Page 3

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO Puerto Rico PSC

San Juan, Puerto Rico
December 14, 2018

Certified Public Accountants
(of Puerto Rico)
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affixed to the file copy of this report

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico):

Report on Compliance for Each Major Federal Program

We have audited the Puerto Rico Highways and Transportation Authority (a Component Unit of the Commonwealth of Puerto Rico) ("the Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2017. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

BDO

Basis for Qualified Opinion on Job Access and Reverse Commute program

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding CFDA 20.516- Job Access and Reverse Commute Program as described in finding 2017-005 for Sub-recipients monitoring. Compliance with such requirement is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

Qualified Opinion on Job Access and Reverse Commute program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all materials respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Job Access and Reverse Commute Program for the year ended June 30, 2017.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor result section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2017.

Authority's Response to Findings

The Authority's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

BDO

To the Board of Directors of
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico)
Page 3

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-005 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-006 to 2017-008 to be significant deficiencies.

The Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BDO Puerto Rico PSC

San Juan, Puerto Rico
December 14, 2018

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PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTION COSTS
FOR THE YEAR ENDED JUNE 30, 2017

SECTION I - SUMMARY OF AUDITORS' REPORT

1. Type of auditors' report issued	Unmodified
2. The independent auditors' report on internal control over financial reporting described:	
a. Significant deficiencies noted considered material weaknesses	Yes
b. Significant deficiencies noted that is not considered to be a material weaknesses	Yes
3. Noncompliance considered material to the financial statements was disclosed by the audit	No
4. The independent auditors' report on internal control over compliance with requirements applicable to major Federal awards described:	
a. Significant deficiencies noted considered to be a material Weaknesses	Yes
b. Significant deficiencies noted that is not considered to be a material weakness	Yes
5. The opinion expressed in the independent auditors' report on compliance with requirements applicable to major Federal awards	Qualified: 20.516 Unmodified: All Other
6. The audit disclosed findings to be reported as required by the Governmental Auditing Standards and Uniform Guidance	Yes

7. The Authority's major programs were:

Name of Federal Program or Cluster	CFDA No.
Highway Planning and Construction	20.205
Federal Transit Formula Grants	20.507
Formula Grants for Rural Areas	20.513
Transit service programs	20.516

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in 2 CFR 200.516(a)	$3,000,000
9. Auditee qualified as a low risk auditee under the Uniform Guidance	No

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTION COSTS
FOR THE YEAR ENDED JUNE 30, 2017

SECTION II FINANCIAL STATEMENTS FINDINGS

2017-001 (Material Weakness in Internal Control over Financial Reporting)

Criteria
A well documented and established year end close process serves to detect errors and prevent them from accumulating within a particular period. The strength of this process also helps to ensure that the monthly and annual financial information reported to management and the board of directors, from which key decisions are made, is a meaningful and reliable as possible.

Condition
During our audit we noted certain errors in the presentation and recording of financial statements amounts resulting in proposed audit adjustments. These were necessary to correct various accounts and balances in the financial statements to conform their presentation with accounting principles generally accepted in the United States of America.

Effect
A material misstatement in the financial statement of the Authority may not be prevented or detected and information used by management to make decisions may be inaccurate.

Cause
The Authority lacks a well-designed and efficient annual and month-end closing process that would entail timely preparation and review of monthly reconciliation of significant account balances.

Recommendation
Management should establish a well-designed and efficient annual and month-end closing process that would entail timely preparation and review of monthly reconciliation of significant account balances. This could be accomplished by the development of a comprehensive checklist that covers all the procedures that the Authority determines necessary to be performed on a periodic basis including, but not limiting to, month-end procedures and the persons responsible for such procedures.

Views of Responsible Officials and Planned Corrective Actions
The Authority has a formal procedure (Procedure #09-09-38) for accounting closings which assigns duties among the accounting staff in order to minimize post-closing and audit adjustments at year-end. Measures have been taken to minimize the adjusting entries at the end of the fiscal year. The most significant journal entries for 2017 fiscal year were not previously recorded during the monthly closing procedures because the Authority received the necessary information from Central Government during the calendar year 2018.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTION COSTS
FOR THE YEAR ENDED JUNE 30, 2017

2017-002 (Material Weakness in Internal Control over Financial Reporting)

Criteria
The Authority has controls deficiencies in its internal control over maintaining appropriate supporting evidence for recording and monitoring toll revenues.

Condition
The Authority relies on a third-party service provider for the administration and processing of the tolls collected in the Authority's toll roads. When an entity outsource tasks or functions to a third party, the user organization, in this case the Authority, needs to monitor the risks associated with the outsourcing, particularly risks related to how the service organization performs the task or functions and how that may affect the user entity's financial reporting.

Effect
Errors or irregularities in the information provided by the third-party service provider might not be detected and corrected on a timely basis resulting in material misstatement in the financial statements.

Cause
The Authority does not have processes in place to assess and validate controls in place at the third party service provider. We were not able to ascertain that the information received from the third-party service organization is validated by the Authority. In addition, the third-party service provider does not prepare or submit to the Authority the Service Organization Controls Report ("SOC Report"). This report focuses on controls at the service organization that affects the Authority's financial reporting and safeguarding of assets. The lack of these controls and procedures could lead to inaccurate financial reporting of toll revenues.

Recommendation
Management must perform monthly independent reconciliation and reviews of the information provided by the third-party service provider. In addition, the Authority should obtain and review the SOC report for this service provider.

Views of Responsible Officials and Planned Corrective Actions
During the fiscal year 2019, the Authority initiated the process to improve the toll collection system. In the request for proposal published in November 2018, the requirement to perform a Service Organization Report (SOC Report) was included to validate the controls of the third-party service provider in the financial reporting of the toll revenues.

2017-003 (Significant Deficiency in Internal Control over Financial Reporting)

Criteria
Construction in process (CIP) consists of construction projects subject to capitalization, either tangible or intangible in nature. When a capital asset project is completed, the related asset is added directly to capital assets at the time of completion. A project is considered completed when upon the earlier occurrence of; substantial completion, occupancy, when the asset is placed into service or when it is ready for its intended use.

Condition
During our audit we noted various projects included in CIP which were capitalized by the wrong amount. In some cases the projects were capitalized for an amount in excess of the amount recorded in CIP and in other cases the projects were capitalized for an amount less than the amount recorded in CIP. In addition, the management performed a maintenance of the CIP subsidiary, which resulted in inaccurate activity for the current fiscal year.

Effect
Construction in process and related capital assets are not properly recorded in the accounting records.

Cause
These errors are the result of lack of controls to determine the total cost incurred in a project and when the project should be capitalized. The result of this practice is capital assets recorded by the wrong amount with the corresponding overstatement or understatement in depreciation expense. Disclosure about the CIP current activities may be inaccurate.

Recommendation
Management should enhance its current process to accumulate and record capital assets additions, deletions and transfers on a timely basis. Communications with construction departments should be improved to obtain the necessary information for proper capital assets transactions.

Views of Responsible Officials and Planned Corrective Actions
During the 2018 fiscal year, the Authority approved a plan to obtain a new version of the finance system that will provide updates of the projects balances on a daily basis. Also, the Authority will improve the project management system to perform information interfaces with the finance system. Both projects are included in the Memorandum of Understanding (MOU) signed in February 2016.

2017-004 (Material weakness in Internal Control over Financial Reporting)

Criteria
Generally accepted accounting principles ("U.S. GAAP") permits the capitalization of indirect costs to construction in process if these costs relate to the acquisition and development of the asset.

Condition
The Authority capitalize to construction in process, 65% of costs of various departments. However, an evaluation of whether such costs meets the criteria for capitalization was not provided for our examination.

Effect
This could result in an overstatement of construction in process and in a material misstatement in the financial statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
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SCHEDULE OF FINDINGS AND QUESTION COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Cause
Management has not performed a determination if the costs being capitalized meets the criteria for capitalization under accounting principles generally accepted in the United States of America.

Recommendation
Management should make an in-depth evaluation of the costs being capitalized to construction in process in order to determine if such costs meets the criteria for capitalization under U.S. GAAP. For example, the costs that relates to acquisition and development of an asset is a cost that would not be incurred if the asset is not developed.

Views of Responsible Officials and Planned Corrective Actions
The Authority will implement the cost allocation methodology used for *Emergency Relief Cost Allocation for Major Events* to capitalize indirect costs associated to the construction in progress. The Authority implemented this methodology during fiscal year 2018. This change in the process is the first phase to implement the new cost allocation methodology. The second phase will be the result of the final indirect cost rate of the Authority.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTION COSTS

2017-005 (Material Weakness and Non-Compliance in relation to a Compliance Requirement)

Federal Program
20.516 Job Access and Reverse Commute Program

Federal Grantor/Office
U.S. Department of Transportation
Federal Transit Administration (FTA)

Compliance Requirement
Sub-recipient Monitoring

Criteria
A Sub-recipient is a nonfederal entity that expends federal awards received from a pass-through entity ("PTE"), in this case the Authority, to carry out a federal program. The Uniform Guidance requires the PTE, among others, to: (1) clearly identify to the Sub-recipient the award as a subaward at the time of the subaward by providing the information described in 2 CFR section 200.331(a)(1), all requirements imposed by the PTE on the Sub-recipient so that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the award [2 CFR section 200.331(a)(2)], any additional requirements that the PTE imposes on the Sub-recipient in order for the PTE to meet its own responsibility for the federal award (e.g., financial, performance, and special reports) [2 CFR section 200.331(a)(3)], to evaluate each Sub-recipient's risk of noncompliance for purposes of determining the appropriate Sub-recipient monitoring related to the subaward [2 CFR section 200.331(b)], and to Monitor the activities of the Sub-recipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals [2 CFR sections 200.331(d) through (f)].

Condition
During our audit, we could not verify documentation that supports the Sub-recipient monitoring activities as required by laws and regulations. Funds passed to the Sub-recipient for program 20.516 amounted to $3,920,091 during the year ended June 30, 2017.

Effect
Not compliance with programs laws and regulations are not detected on a timely basis.

Cause
Sub-recipient monitoring activities are limited to the review and verification of the reimbursement request submitted by the Sub-recipient. Management understand that this procedure is sufficient to comply with the requirements of the Uniform Guidance.

Recommendation
Management should establish policies and procedure to support the Sub-recipient monitoring activities in accordance with the Uniform Guidance. Failure to do this could result in question costs by the Federal Awarding Agency.

Views of Responsible Officials and Planned Corrective Actions
To be in compliance with this requirement, the Authority will revise the policies and procedures to improve the monitoring activities in accordance with the Uniform Guidance. The monitoring activities will include reporting, site visits, regular contact or other means to provide reasonable assurance that the sub recipient administers the federal funds for authorized purposes and in compliance with the terms of the sub award.

2017-006 (Significant Deficiency and Non-Compliance in relation to a Compliance Requirement)

Federal Program
20.205 Highway Planning and Construction (Federal Aid Highway Program)

Federal Grantor Office
U.S. Department of Transportation
Federal Highway Administration ("FHWA")

Compliance Requirement
Matching

Criteria
Per letter dated March 31, 2014, FHWA approved toll credits amounting to approximately $756 million to be applied toward the non-federal matching share of programs authorized by Title 23, U.S.C. except the credit may not be applied to projects funded with FHWA's emergency relief fund. Additionally, the credit may be applied to transit programs authorized by Chapter 53 of Title 49, U.S.C. As required by the letter the Authority must establish standard operating procedures and a special account to track appropriate toll credits.

Condition
The Authority maintains an analysis of the toll credits applied to each project on an Excel spreadsheet. The Excel spreadsheet contains the unused amount of the toll credits and the estimated costs of each project as approved by FHWA. The amount of the unused credit is calculated based on the project estimated original and contracted cost but this calculation is not updated with actual cost incurred in each project.

Effect
Since the amount of the unused toll credit is calculated using the project original estimated costs rather than project actual cost this could result in an incorrect amount of unused toll credit.

Cause
The record used by the Authority to maintain the unused credits is not updated regularly.

Recommendation
The Authority should establish procedures to account properly the amount of toll credits applied to each project in order comply with the requirements of FHWA letter dated March 31, 2014. The record maintained by the Authority should take into account the actual costs incurred in a project rather than estimated costs.

Views of Responsible Officials and Planned Corrective Actions
The manual process of reconciling the toll credits will be automated when the PMIS program will be functional by March 31, 2020. As per Section II of the Memorandum of Understanding (MOU) signed in February 2016 between FHWA and the Authority, the toll credits tracking, reconciling and approval process were reviewed by FHWA PR Division for compliance.

2017-007 (Significant Deficiency and Non-Compliance in relation to a Compliance Requirement)

Federal Program
20.205 Highway Planning and Construction (Federal-Aid Highway Program)

Federal Grantor/Office
U.S. Department of Transportation
Federal Highway Administration (FHWA)

Compliance Requirement
Activities allowed

Criteria
Federal funds can be used only to reimburse costs that are (a) incurred subsequent to the date of authorization to proceed, except for certain property acquisition costs permitted under 23 USC 108 and certain emergency repair work under 23 USC 125; (b) in accordance with the conditions contained in the project agreement and the plans, specifications, and estimates (PS&E); (c) allocable to a specific project; and (d) claimed for reimbursement subsequent to the date of the project agreement (23 CFR sections 1.9, 630.106, and 630.205).

Condition
In a sample of 70 payments to contractors, in three instances costs not included in the approved project plans, specifications and estimates were charged to the federal projects. The items in the sample amounted to $36,876,760 and the total amount of the population amounted to $93,273,124. The items not in compliance amounted to $74,746 and were charged to project MP-2(71), LP-9(6) and MP-110(10) in the amounts of $13,558, $60,690 and $498, respectively.

Effect
The Authority might not be in compliance with program laws and regulations.

Cause
During the year ended June 30, 2017, the Authority changed the program administrative functions among different personnel resulting in items not qualifying included for reimbursements.

Questioned costs
$74,746

Recommendation
The Authority should establish controls and procedures to properly supervise personnel in its functions and to provide training to new personnel as the agency relocates them from other departments.

Views of Responsible Officials and Planned Corrective Actions
The Authority implemented a process to review each billing before requesting a reimbursement that is charged to the federal award. Also, the personnel received trainings annually about the cost reimbursement in federal projects.

2017-008 (Significant Deficiency and Non-Compliance in relation to a Compliance Requirement)

Federal Program
20.205 Highway Planning and Construction (Federal Aid Highway Program)

Federal Grantor/Office
U.S. Department of Transportation
Federal Highway Administration (FHWA)

Compliance Requirement
Special Tests and Provisions - Quality Assurance Program

Criteria
Program laws and regulations requires the Authority to have a quality assurance program ("QA") approved by FHWA, for construction projects on the National Highway System ("NHS") to ensure that materials and workmanship conform to approved plans and specifications. Verification sampling must be performed by qualified testing personnel employed by the Authority, or by its designated agent, excluding the contractor (23 CFR sections 637.201, 637.205, and 637.207).

Condition
Although the Authority has a quality control program and action plan to achieve the quality control requirement, the same has not been approved by FHWA at June 30, 2017.

Effect
The Authority may not detect or prevent, on a timely manner, the use of construction material and workmanship that do not meet federal standards.

Cause

Management submitted the quality assurance plan for FHWA approval after the close of the current fiscal year. Therefore, for the year ended June 30, 2017, the Authority managed its FHWA projects without an approved quality assurance plan.

Recommendation

Procedures should be established to ensure that the Authority complies with program laws and regulations at all times.

Views of Responsible Officials and Planned Corrective Actions

The Authority has been working with a plan of action for compliance since 2014. This plan was agreed with the Puerto Rico Division of the FHWA, and quarterly progress reports were submitted to the division. The quality plan was finally approved by the FWHA in August 2017.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

Finding 2016-006 - Sub-recipient Monitoring

Program: CFDA No. 20.509

CFDA Program Title: Formula Grants for Rural Areas

Condition: During our audit, we could not verify supporting documentation about the Authority's compliance with the Sub-recipient monitoring. Funds passed to the Sub-recipient amounted to $3,977,963 during the year ended June 30, 2016.

Recommendation: Management should establish policies and procedure to support the Sub-recipient monitoring activities in accordance with the Uniform Guidance. Failure to do this could result in question costs by the Federal Awarding Agency.

Current status: During the year ended June 30, 2018, the Authority implemented the Sub-recipient activities and related controls to ensure compliance with the Sub-recipient monitoring performing site visits to inspect vehicles and facilities.

Finding 2016-007 - Special Tests and Provisions - Quality Assurance Program

Program: 20.205

CFDA Program Title: Highway Planning and Construction (Federal Aid Highway Program)

Condition: Although the Authority has a quality control program and action plan to achieve the quality control requirement, the same has not been approved by FHWA.

Recommendation: Procedures should be established to ensure that the Authority complies with program laws and regulations at all times.

Current status: During the year ended June 30, 2017 the Authority worked with a quality control plan that was not approved by FHWA until July 2017. Reported as finding No. 2017-008 in current year.

Finding 2016-008 - Matching

Program: 20.205

CFDA Program Title: Highway Planning and Construction (Federal Aid Highway Program)

Condition: The Authority maintains an excel spreadsheet of the toll credits used but it is not up-to-date. This tracking tool contains the unused amount of toll credits using the estimated cost of each project as approved by FHWA, but not updated to reflect actual costs toward the completion of the projects.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
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Recommendation: The Authority should establish procedures to account properly the amount of toll credits applied to each project in order comply with the requirements of FHWA letter dated March 31, 2014. The record maintained by the Authority should take into account the actual costs incurred in a project rather than estimated costs.

Current status: The Authority is in the process of migrating to a new version of SAP, which will contain automatized process to generate up-to-date information about the toll credits available at any point in time. Therefore, as of the date of this report, the condition is open since the Authority has not concluded the full implementation process. Reported as finding No. 2017-006 in current year.

Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico)
CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
June 30, 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	The Authority has a formal procedure (Procedure #09-09-38) for accounting closings which assigns duties among the accounting staff in order to minimize post-closing and audit adjustments at year-end. Measures have been taken to minimize the adjusting entries at the end of the fiscal year. The most significant journal entries for 2017 fiscal year were not previously recorded during the monthly closing procedures because the Authority received the necessary information from Central Government during the calendar year 2018.	June 30, 2017	Luis Kevin Santiago Reyes, Finance Interim Sub-Director
2017-002	During the 2019 fiscal year, the Authority initiated the process to improve the toll collection system. In the request for proposal published in November 2018, the requirement to perform a Service Organization Report (SOC Report) was included to validate the controls of the third party service provider in the financial reporting of the toll revenues.	June 30, 2020	Javier E. Hernandez Carreras, Auxiliary Executive Director for Administration and Finance
2017-003	During the 2018 fiscal year, the Authority approved a plan to obtain a new version of the finance system that will provide updates of the projects balances on a daily basis. Also, the Authority will improve the project management system to perform information interfaces with the finance system. Both projects are included in the Memorandum of Understanding (MOU) signed in February 2016. The project management system will be completed by March 31, 2020.	March 31, 2020	Angel M. Felix Cruz, Finance Director
2017-004	The Authority will implement the cost allocation methodology used for *Emergency Relief Cost Allocation for Major Events* to capitalize indirect costs associated to the construction in progress. The Authority implemented this methodology during fiscal year 2018. This change in the process is the first phase to implement the new cost allocation methodology. The second phase will be the result of the final indirect cost rate of the Authority.	June 30, 2019	Angel M. Felix Cruz, Finance Director

2017-005	In compliance with this requirement, the Authority will revise the policies and procedures to improve the monitoring activities in accordance with the Uniform Guidance. The monitoring activities will include reporting, site visits, regular contact or other means to provide reasonable assurance that the sub recipient administers the federal funds for authorized purposes and in compliance with the terms of the sub award.	June 30, 2020	Sonia Montanez, Federal Coordination Office Director
2017-006	The manual process of reconciling the toll credits will be automated when the PMIS program will be functional by March 31, 2020. As per Section II of the Memorandum of Understanding (MOU) signed in February 2016 between FHWA and the Authority, the toll credits tracking, reconciling and approval process were reviewed by FHWA PR Division for compliance.	March 31, 2020	Ing. Ana L. Torres, directora de Federal Liaison Office
2017-007	The Authority has a process to review each billing before requesting a reimbursement that is charged to the federal award. Also, the personnel received trainings annually about the cost reimbursement in federal projects. .	June 30, 2018	Angel M. Felix Cruz, Finance Director
2017-008	The Authority has been working with a plan of action for compliance since 2014. This plan was agreed with the Puerto Rico Division of the FHWA, and quarterly progress reports were submitted to the division. The quality plan was finally approved by the FWHA in August 2017.	August 1, 2017	Ing. Miguel Estrella, director de Prueba de Materiales